

# FINANCIAL TIMES

World Business Newspaper http://www.ft.com

THURSDAY JANUARY 7 1999

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## WORLD NEWS

### Former army chief joins race for Israeli premiership

Yehonatan Lioran, Israel's former army chief, launched his campaign for the premiership with an attack on prime minister Benjamin Netanyahu and an appeal for Israeli unity. Page 14; Profile, Page 8

**Debate rages over Clinton trial**  
US senators were locked in debate over how to organise President Bill Clinton's impeachment trial, which starts today. Right-wing Republicans sought to block plans for an accelerated vote. Page 14; Republican nerves grow, Page 5

**German parties split on citizenship**  
Germany's opposition parties' attack on government plans to ease citizenship laws stalled as their own ranks split over the issue. Europe, Page 2

**Siemens crisis looms**  
European Parliament members fear demanding the resignation of two European commissioners as the crisis over the Commission deepens. Europe, Page 2

**US leads for healthy surplus**  
The Clinton administration yesterday forecast a higher-than-expected US federal budget surplus of about \$78bn this fiscal year. America, Page 4

**UN rejects slur on impartiality**  
Top United Nations officials defended UN integrity and impartiality after reports that its weapons inspectors in Iraq had been used by US intelligence as cover for spying. International, Page 4

**Sierra Leone rebels reach capital**  
Rebels reached central Freetown, Sierra Leone's capital, capturing the presidential State House. International, Page 4

**Bleak economic outlook for China**  
China's finance minister Xiang Huacheng forecast bleak economic prospects for the country and predicted an increased deficit would be needed to spur growth. Asia, Page 6

**UK police told to leave Aden**  
Two British detectives probing a rescue operation in Yemen in which four western hostages were killed left Aden at the request of Yemeni authorities.

**Obuchi orders coalition talks**  
Japan's prime minister, Keizo Obuchi, left for Europe after instructing key members of the ruling Liberal Democratic party to finalise coalition talks with opposition Liberals. Asia, Page 6

**Canadian aid reaches Russians**  
Canadian aircraft flew aid to Russia's far north-east but ice halted a sea cargo of badly needed oil. Russia's economic crisis has created severe shortages in some remote regions.

**Turkey still in political crisis**  
Veteran Turkish politician Süleymen Ecevit re-emerged as the country's probable next prime minister after Yalrim Erez abandoned his attempt to form a new government. Europe, Page 3

**Banks to fund Holocaust list**  
Swiss banks are putting \$4m towards a computerised list of Holocaust victims' names in a bid to match dormant wealth with its rightful owners.

## BUSINESS NEWS

### Media group Kirch claims assets of more than \$12bn

Kirch Group, the troubled German media group seeking a cash injection, has told potential investors that its assets are worth more than DM20bn (\$12bn) and it has lower debt than has been estimated. Page 13

**Suici, the Italian fashion group**, saw its shares jump 19 per cent to €55.4 when LVMH, the French luxury goods conglomerate, announced it had acquired more than 6 per cent of the company. Page 13; Lex, Page 12

**Sturebrand, Norway's leading insurer**, launched a NKr1.8bn (\$224m) takeover bid for Finansbanken, the country's second largest private bank. In the latest consolidation of the Nordic financial sector. International companies, Page 14

**US investment banks topped the European takeover league tables last year**, according to preliminary figures. International companies, Page 14

**Beas Company, the Dutch maker of business software**, saw its shares rise 9.5 per cent as it announced it had received a \$75m cash injection from a US investor group. International companies, Page 14

**Italian mobile phone users got a nasty shock when the cost of calling cellular telephones from fixed lines soared by as much as 153 per cent**. Europe, Page 3

**Airbus Industrie has extended its reach into rival Boeing's home territory with a deal to sell 30 single-aisle airliners**, valued at \$1.3bn, to Bouffouan Aviation Services, a German-owned leasing company based in Washington state. World trade, Page 4

**China threw into doubt the future of 44 important industrial parks across the country**, including a \$20bn Singaporean flagship project trumpeted by the city-state's leaders as the optimum way for foreign manufacturers to enter the unpredictable Chinese market. Asia-Pacific, Page 6

**Japan's construction sector has moved further into crisis despite the government's injection of thousands of billions of yen in public works projects**. Construction orders in public and private sectors fell 21.3 per cent in November in the 11th consecutive month of year-on-year declines. Asia-Pacific, Page 6

**Thai Military Bank and Bangkok Bank confirmed they were seeking the £2 capital help from the authorities**, but Thai Military Bank denied it had decided to apply for Tier 1 help. Asia-Pacific companies, Page 16

**Reebok India is cracking down on local companies that have flooded bazaars and upmarket shops with counterfeit versions of its sports clothing and cricket bats**. World trade, Page 4

### World Equity Markets

The latest trends and data from more than 50 national markets at a glance  
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TRADITIONAL JANUARY LIFT FOR EQUITIES BOOSTED BY TAKEOVER TALK, LOW BOND YIELDS AND PROSPECT OF INTEREST RATE CUTS

## Rally in world markets gathers pace

By Philip Coggan in London and John Laska in New York

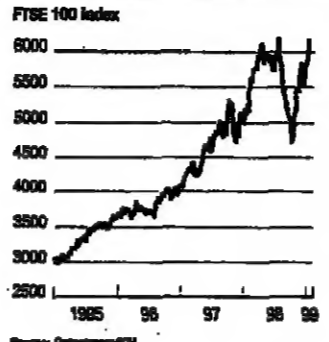
World markets stepped up the pace of their new year rally yesterday with Wall Street heading into record territory in early trading and European bourses surging ahead.

Takeover talk in the automotive and telecommunications sectors provided the immediate spur for the gains but there were signs that institutional investors were pushing money into blue-chip stocks, as they often do at the start of the calendar year.

Just before 3pm in New York, the Dow Jones Industrial Average crossed the 9,500 level, up 198 points on the day. It was already in record territory earlier in the day when it passed 9,400. Enthusiasm for semiconductor and internet shares extended the Nasdaq composite's record-breaking rally, with the technology-dominated index adding 2.6 per cent by early afternoon at 2,309.59.

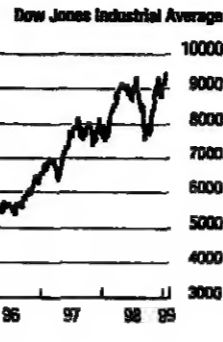
In Europe, London's FTSE 100 index gained 190.6 to 6,148.8, its

### Already a happy new year for stocks



Source: DataStream/FT

### Dow Jones Industrial Average



Source: DataStream/FT

third largest points rise although well down the scale in percentage terms. In Paris, the CAC 40 gained 2.3 per cent to be within 100 points of its all-time high while the DAX in Frankfurt gained 3.4 per cent.

Earlier in the day, the Hang Seng index in Hong Kong had gained 3.5 per cent while the Singapore and Bangkok markets moved up 5.7 and 6.4 per cent respectively. While the recent wave of takeovers means that few investors want to be out of the equity market, for fear of missing the next big deal, the early strength of shares in 1999 also owes much to the lack of alternatives.

Bond yields are low and there are expectations that interest rates will be cut further in Europe and the US. The successful launch of the euro has also prompted a wave of enthusiasm for Europe's prospects.

January has traditionally been the best month for stock market performance, with the UK market rising by an average 2.5 per cent on the month over the 1919-98 period, according to the Schwartz Stock Market Handbook.

One factor behind January's historical strength is a seasonal inflow of money into investment institutions. This seems to have been heightened this year by the decision of US equity mutual fund managers to reduce the cash levels which they built up when markets were falling in the autumn and to invest the proceeds in the stock market. The fund managers' cash level reached a two-year high of 6.3 per cent in September, compared with the average for the two-year period of 4-4.5 per cent.

Some analysts think the rise in share prices has gone too far, with investors paying insufficient attention to the prospect of slower economic and corporate

earnings growth. Albert Edwards, global strategist at Dresdner Kleinwort Benson, said: "A lot of people think that 10,000 on the Dow is sustainable. With the trailing price-earnings ratio on the US market around 38, we are approaching Japanese-style bubble valuations. At these levels, a deepening profits recession will eventually hurt the market."

Arthur Hogan, chief market analyst at Jefferies & Co in Boston, said: "This is a completely liquidity-driven marketplace that's diverged from earnings fundamentals."

"January is the time when everyone's sitting on a pile of cash and it will take a huge earnings warning from the likes of General Electric or Microsoft to stop people in their tracks."

Euro as trade tool, Page 2  
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Bonds, Page 22; London stocks, Page 30; World stocks, Page 34

## Volvo appoints US bank to explore car group sale

By Tim Bart in Stockholm and William Lewis in New York

Volvo, the Swedish automotive group, has appointed a leading US investment bank to explore a possible sale or merger of its car division, its largest business.

The decision represents the first confirmed sign that Volvo, one of Europe's premium brands, is reconsidering the strategic ownership of its car manufacturing operations.

Ford of the US, Italy's Fiat and Volkswagen of Germany have been identified as possible bidders for the business - valued by industry analysts at SKr40bn-SKr65bn (\$5bn-\$8.5bn).

A deal raising SKr40bn for Volvo would represent a multiple of six times the car division's operating cash flow. It would swell Volvo's cash reserves to almost SKr90bn - enabling the group to contemplate a large acquisition in other areas.

Leif Johansson, Volvo chief executive, has made no secret of his desire to expand Volvo's truck, bus and construction

equipment divisions, all higher-margin businesses.

However, people close to the company warned that no agreement could be seen that a deal involving Volvo Cars would be announced. The bank has received a "sell-side" mandate. Under the terms governing most such mandates, the bank receives only a small fee if it finds no buyer.

Nevertheless, Volvo is said to be "absolutely serious" about selling or merging its automotive division if the right terms can be reached, one official said.

The Wall Street investment bank, which has not been named, is understood to have drawn up a number of options including an outright disposal, partial sale or joint venture for Volvo Cars.

Volvo declined to comment. Market speculation surrounding Volvo had centred on a merger involving the whole group and has fuelled a near 25 per cent rise in Volvo's shares in the past month. On Tuesday the shares rose 6.3 per cent to SKr212; the Stockholm market

was closed yesterday, a public holiday.

Some analysts believe Volvo might pursue a deal similar to the joint venture at Swedish rival Saab Automobile, in which investor - the main investment vehicle of Sweden's Wallenberg empire - sold a 50 per cent stake and surrendered management control to General Motors of the US.

The bank is also believed to be scrutinising a possible manufacturing partnership, modelled on Volvo's existing Dutch venture with Mitsubishi Motors of Japan, which produces mid-size cars.

Mr Johansson has made clear that he is dissatisfied with the near 4 per cent margins in the group's car division, which contributed an estimated SKr4.9bn to Volvo's profits in 1997.

He is expected next month to announce underlying operating profits of SKr3bn for 1997, up sharply from SKr2.7bn in the previous year, on sales ahead from SKr156bn to SKr207bn.

Lex, Page 12



Volvo chief executive Leif Johansson has made no secret of hoping to expand Volvo's truck, bus and construction equipment divisions

## PwC plans global law firm network

By Jim Kelly and Robert Rice in London

PwC, the giant professional services firm, aims to build the fifth largest law firm in the world in the next five years with 10bn fees and 3,000 lawyers.

It is about to open talks with potential partners in London and New York.

Gérard Nicolay, global leader of PwC's legal network, announcing details of a deal to create Spain's second biggest law firm, said: "We want to give a signal to the key law firms in the UK that we are ready to start merger discussions."

It is understood PwC will be looking in the middle-tier of City law firms and may also consider an additional merger with a strong provincial legal network.

Mr Nicolay said he hoped PwC's legal practice in London would have 400-500 lawyers within two years.

Regulatory constraints in the US meant PwC would probably seek an associate law firm in New York.

"We want to become one of the top five legal firms in the world within the next five years," he said.

PwC's move mirrors that of fellow Big Five accountant Arthur

Andersen, which already has a legal network in 31 countries around the world. It acquired J & A Garrigues, Spain's largest law firm, in 1998.

However, in recent months efforts to rival the leading US and UK international law firms have suffered a setback following the collapse of merger talks with Wilde Septe in London and the closure of its Hong Kong law firm.

The collapse of the merger talks was a blow to its ambitions and raised doubts that any Big Five accountancy firm could build a comprehensive legal network to rival the big US and UK-based international law firms.

There are big disparities in earnings between partners in accountancy firms and lawyers. Business lawyers working in PwC's associated law firm in London are understood to earn an average £170,000 - compared with £60,000 at Slaughter and May, the UK's most profitable law firm. Middle-tier earnings are lower and weaker in recession.

Yesterday, lawyers said PwC would face similar problems to Andersen in trying to attract a City of London law firm.

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Comment, Page 18

WORLD MARKETS		
<b>STOCK MARKET INDICES</b>		
New York Jan 6	9,498.08	(+209.59)
Dow Jones Ind Av	9,498.08	(+209.59)
NASDAQ Composite	2,309.59	(+68.67)
<b>Asia and Far East</b>		
Hong Kong	12,000.00	(+450.00)
S&P 500	2,309.59	(+68.67)
FTSE 100	6,148.8	(+190.6)
FTSE Europe 300	2,309.59	(+68.67)
Nikkei	13,488.46	(+232.72)
<b>US LUNCHTIME RATES</b>		
Federal Funds	5 1/4%	
9-month Treasury Bill	4 3/4%	
Long Bond	5 1/8%	
Yield	5.19%	
<b>OTHER RATES</b>		
UK 5-mo Interbank	6 1/4%	(same)
UK 10 yr GB	135.99	(136.96)
BBA Eurozone	3.2%	(same)
Germany 10 yr Bund	107.53	(107.48)
Japan 10 yr JGB	99.638	(98.968)
NORTH SEA OIL (Angus)		
Brent Dated	\$10.675	(10.38)

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Euro-zone target price €2.15. Prices in local currency at close	
Belgium	120.00
Denmark	110.00
France	110.00
Germany	110.00
Greece	110.00
Ireland	110.00
Italy	110.00
Japan	110.00
Netherlands	110.00
Portugal	110.00
Spain	110.00
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UK	110.00
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# WORLD NEWS

EUROPE

## Commission in crisis as MEPs call for sackings

**By Neil Buckley in Brussels**

Two European commissioners were last night facing demands from European Parliament members to resign, as the political crisis surrounding president Jacques Santer's Commission deepened.

The European Liberal Democrats, parliament's third-largest group with 42 members, were set to present at parliament's session next week a resolution calling for Edith Cresson, a former French prime minister,

and Manuel Marin, a Commission vice-president, to stand down.

The demands will be presented alongside a censure motion already tabled last month, which, if successful, would force all 20 commissioners to resign.

But Mr Santer was defiant yesterday. He insisted that if parliament failed to muster the necessary two-thirds majority for the censure, his Commission would press on - even if it faced a sizeable protest vote.

"We intend respecting the

institutional provisions [of the EU treaty] in their entirety," he said. "That means if the vote of censure fails, the Commission will continue. We don't have any other option," he added.

Parliament presented its censure motion - its only official sanction against the Commission - after voting against granting discharge to, or signing off, the EU's 1996 accounts.

The vote reflected parliamentary dissatisfaction over mismanagement by the Commission, and a series of leaks

alleging corruption in some programmes.

Although parliament has recently been further angered by the suspension of a Commission "whistleblower", Paul van Buitenen, who leaked information to MEPs, few expect the motion - which requires support from a majority of all 526 MEPs and two-thirds of votes cast - to succeed.

The socialist group, the biggest in parliament with 214 MEPs, is pledged to support the Commission, and some other political groups

believe activating the "nuclear weapon" of a censure would be a serious error.

But several groups are also anxious to avoid allowing the Commission to escape sanction.

The Liberals last night agreed to present a resolution calling on the two commissioners whose programmes have come in for most criticism to "accept their personal responsibility".

Mrs Cresson is targeted by the resolution for alleged

poor administration in the Leonardo youth training programme for which she is responsible, and alleged "favouritism" in decisions on awarding contracts.

She has vigorously and repeatedly denied any personal wrongdoing, and the Commission says any problems found in Leonardo relate entirely to an external contractor.

Mr Marin is mentioned for "lack of responsibility" he has shown related to misuse of humanitarian aid funds in Echo, the Commission's

humanitarian office, for which he was responsible until 1996, and concerns over the Med programme of assistance to Mediterranean countries.

Mr Marin has similarly denied any personal wrongdoing, and the Commission says any problems in Echo or Med were at the level of lesser officials or outside contractors.

The Greens, with 27 members, said last night they would back the Liberals' resolution.

The European People's

party, the centre-right group which has the largest number of seats in parliament's second session with 202 members, said it would pose four questions to the Commission and decide on its position next week.

Such a resolution, requiring only a simple majority to be carried, would have no binding force but would put Mr Santer under great pressure to act.

Mr Santer also said yesterday he had complete faith in both commissioners.

See editorial comment

## Violence renews tensions in Basque region

**By David White in Madrid**

A resurgence of political street violence in Spain's Basque country has renewed tensions in the region in the wake of a ceasefire by the armed separatist organisation Eta, in force since September.

Several dozen hooded protesters hurled petrol bombs and fireworks at a paramilitary Civil Guard barracks in Getxo, a town outside the main Basque city of Bilbao, on Tuesday night.

The action followed an earlier morning arson attack in Bilbao, which ignited a call belonging to member of Spain's ruling centre-right Popular party. Local PP politicians were the prime targets of Eta in the last months of its 30-year terrorist campaign, with six town councillors murdered in 1997 and 1998.

Attacks and threats have built up in recent weeks, including the New Year's day burning of a court building in Tolosa, south of San Sebastián.

The escalation coincides with increasing demands for government concessions towards more than 500 jailed members of Eta, currently scattered in prisons around Spain. Basque nationalist parties and trade unions, which have criticised the scope of measures so far by the Madrid authorities in response to the Eta ceasefire, are backing a mass demonstration planned for Saturday, calling for a more comprehensive programme to relocate prisoners nearer their family homes.

The protest is expected to be attended by some members of the new Basque regional government, which is due to take office today. Formed by the mainstream Basque Nationalist party (PNV) and a smaller splinter party, the new administration relies on support in the regional parliament from Baskal Herriarrok, the new grouping based on Eta's political arm, Herri Batasuna (HB).

An opinion poll in the Spanish daily El Mundo showed a majority of Spaniards favouring negotiations with Eta or HB to resolve the Basque conflict.

But more than 71 per cent rejected granting pardons to convicted Eta members, even if the ceasefire became permanent. Most were also opposed to pardoning 22 former HB leaders now in jail after receiving seven-year sentences in 1997 for aiding terrorism.

## Commissioners start to feel the heat

Dossier on alleged fraud and mismanagement has added to trepidation surrounding censure motion in European Parliament next week, writes Neil Buckley

A mid-ranking official at the European Commission may - with help from the Commission itself - have landed Jacques Santer in the biggest crisis of his four years as president of the European Union's executive.

Paul van Buitenen, 41, a Dutch-born assistant internal auditor at the Commission is at his comfortable, detached home in an affluent Flemish suburb of Brussels this week, some miles from the centre of the political storm he has provoked.

If he were not busy worrying about the future of his job, he might be amused by the international media attention he has attracted. European television crews are queuing at his door.

Mr van Buitenen, whose appearance before the media has shown him to be articulate and intelligent, has been suspended on half-pay pending disciplinary proceedings. His misdeeds are: passing a dossier detailing alleged fraud and mismanagement at the Commission to the European Parliament.

The Commission maintains that the content of the dossier was not new, containing only cases already

under investigation. His offence, rather, was to break staff rules by releasing confidential documents.

But Mr van Buitenen's letter did not just outline particular cases of alleged fraud and mismanagement in Commission programmes. It also attacked the Commission's whole culture, citing the "incompetence and unwillingness of the administration to deal efficiently with fraud and irregularities".

Partly as a result of Mr van Buitenen's actions, the Commission is viewing a censure motion in the European Parliament next week with genuine trepidation.

If it loses, all 20 commissioners who head the executive face the sack - plunging the EU into chaos and threatening the timetable for vital reforms needed to prepare the Union for eastern enlargement. This is unlikely, as a two-thirds majority would be needed. But enough MEPs could now vote against the Commission to cause it significant damage.

How did it come to this? Just as few originally believed President Bill Clinton's affair with Monica Lewinsky would lead to his

impeachment, so few, as the clash between EU commissioners and parliament developed, thought it could culminate anything close to a vote of censure.

The confrontation, however, is not just about fraud. It represents an important trial of strength between two of the EU's three policy-making bodies.

The Commission not only acts as the EU's civil service, running policy day-to-day, but has the sole right to propose legislation. The 626-member parliament, the EU's only directly-elected institution, sees itself as the democratic check and balance on those powers.

Until recently, that was just a delusion. But the 1991 Maastricht Treaty and 1997 Amsterdam Treaty have given to parliament a more important role in amending and approving proposed legislation in conjunction with the Council of Ministers from the 15 member states. Increasingly confident, parliament has begun to flex those muscles it has.

One of parliament's most cherished powers is the right to "grant discharge" to the EU's €20bn (€90bn) a year budget - or sign off the accounts. Its budget control

committee, assessing the 1996 budget, expressed concern early last year about shortcomings.

It deferred discharge of the budget in March, citing an "unacceptably high number of cases where execution of the budget has been inappropriate", and gave the Commission until December to put its house in order.

Foreign policy programmes were poorly implemented, it said. Efforts to tackle fraud lacked "democratic accountability". Commission staffing policy - particularly the tendency to contract out important projects to third parties - needed overhauling.

A spate of leaks about alleged fraud in programmes such as Echo, the humanitarian aid office, and Med, an assistance programme for Mediterranean countries, damaged relations further. So did the latest annual report by the Court of Auditors - the EU's spending watchdog - which estimated that errors affected 5 per cent of all EU budget payments in 1997.

The Commission insists it met all parliament's demands in full.

But MEPs, dissatisfied with some of its responses,



Paul van Buitenen: suspended after he made allegations about fraud within the EU Reuters

and believing they had been deprived of full information on alleged corruption, began threatening in November not to grant discharge.

Even then, it seemed unlikely discharge would be withheld. Mr van Buitenen's dossier, sent to the leader of parliament's Green group - a party to which he belongs - a week before the vote, may have helped tip the balance.

But more damage was probably done by a Commission statement the night before the vote telling MEPs

that, if they refused to sign off the 1996 accounts, they should take the logical next step - a confidence vote.

Angered by what many saw as clumsy and unwarranted interference, MEPs voted 270-225 against discharge on December 17 and took up the challenge of a censure vote.

Mr van Buitenen's suspension appears to have been a further tactical error by the EU executive, inflaming parliamentary tempers just days before the vote next Thursday. Mr Santer told a

packed press conference yesterday that if his Commission survived the censure motion, it would press on whatever the voting details.

As he also observed, the conference was taking place precisely one year before the expiry of his mandate as president on January 6 2000. He and his staff will have to work hard over the next week to make sure they last that long. As for any hopes Mr Santer may have nursed of being reappointed for a second term, those now seem irreparably damaged.

## SINGLE CURRENCY CENTRAL BANK WELCOMES CHALLENGER TO DOLLAR

### Cuba sees euro as trade tool

**By Pascal Fletcher in Havana**

Cuba is cheering the arrival of the euro, happy to see a challenger to what it sees as the hegemony of the US dollar and a new tool to ameliorate the effects of the US trade embargo.

Europe is currently the biggest single source of visitors, trade and credits to the communist-ruled Caribbean island and the arrival of the new single currency is being welcomed accordingly.

Francisco Soberón, president of Cuba's central bank, said this week that using the euro would help to simplify trade operations and payments with Europe, as well as reducing exchange

risks and even interest rate costs. By prohibiting Cuba from using the US dollar in its international trade, the US embargo forces Cuban companies to move in and out of third currencies with resulting additional costs and complications.

According to Cuban officials, this restriction resulted in currency exchange losses for Cuba of \$300m in 1998. Mr Soberón recommended that Cuban state companies trading with Europe start employing the euro from July 1 1999 onwards.

A US official dismissed the potential benefits, however. "The euro is not going to fix Cuba's fundamental economic problems," he said. But from the political

point of view, Cuban leaders clearly relish the idea that the US dollar, the symbol of globalising US capitalism, may now face a challenge from the euro to its position of world supremacy. "The dollar and the euro are eyeing each other warily. A promising adversary to the privileged US currency has emerged," Fidel Castro, Cuba's president, said last week in a speech celebrating the 40th anniversary of the Cuban Revolution.

Inside Cuba, however, the US "greenback" has been gaining strength as the currency of choice following the government's decision five years ago to permit the use of dollars by Cubans.

Just over 56 per cent of the

Cuban population enjoyed access to US dollars in 1998, either through cash remittances sent from abroad, incentive payments for foreign and Cuban companies or through the "trickle down" effects of hard currency tourism and business. Mr Castro has acknowledged the decision to legalise the use of the dollar inside Cuba was a painful one.

The island's dual monetary system now divides Cuban society between those who have US dollars and can therefore enjoy a higher standard of living by buying in better-stocked dollar stores, and those who struggle to live on Cuban peso salaries.

## Citizenship plans split German opposition

**By Frederick Stüdemann in Bonn**

An assault by Germany's opposition parties on government plans to liberalise the country's citizenship laws stalled yesterday, as their own ranks split over the issue.

Leaders of the conservative Christian Social Union, meeting yesterday in the Bavarian town of Wildbad Kreuth, sharpened their attack on the government's plans, which, for the first time, would allow foreign residents to claim dual citizenship.

But as the CSU fulminated against the proposed law, a splinter group of young leaders from the CSU's sister party, the Christian Democratic Union, warned that plans for a petition to oppose dual citizenship for foreigners simplified a sensitive issue and threatened to damage support for the party.

At a press conference, four younger CDU legislators said they would not support the petition unless there was also a clear commitment to the goal of integrating foreigners living in Germany. They also warned the issue could be exploited by far-right parties.

Their statements reflect widespread concern among the opposition parties and other groups in society, such as churches, over the treatment of the 7.3m foreigners living in Germany.

Those concerns apparently were not shared by the CSU leadership, which has seized on the citizenship issue as an early chance to fire a broadside against Chancellor Gerhard Schröder's "red-green" government of Social Democrats and Greens.

Günther Beckstein, Bavarian interior minister, said the government's proposals were "an attack on internal security". Erwin Huber, head of the state chancellery office, claimed they would lead to the forced "Germanisation" of foreigners.

In a position paper leaked to the press ahead of the Wildbad Kreuth conference, the CSU claimed 4.3m foreigners living in Germany would be eligible for dual citizenship. It alleged that the granting of citizenship would prompt a wave of mass immigration as dependent "Germanised" relatives, the result, the CSU claimed, would be higher unemployment, urban ghettos and increasing racial tensions.

The government yesterday hit back. Otto Schily, interior minister, accused the CSU and CDU of a "panic reaction" brought on from the loss of power after 16 years in government. He accused Edmund Stoiber, Bavarian state premier, of suffering "a partial loss of reality" and said the CSU actions risked inciting tensions within society.

Mr Schily also sought to exploit the emerging divisions within the opposition ranks. He said the government would happily support a constitutional amendment to allow a referendum on the issue. Mr Stoiber, who is bidding to be the main opposition figurehead, backs referendums that are already used in Bavaria. Wolfgang Schäuble, CDU chairman, vehemently opposes referendums, which he believes encourage populism and undermine the duties of elected politicians to lead.

Mr Schily said the government would next week reveal details of its planned reform of Germany's citizenship laws, which are based on blood lineage, to allow foreigners to hold a German passport alongside one from their country of ethnic origin.

## Car price disparities highlighted

**By John Griffiths**

New car dealers this week were busy slapping euro price stickers on windcreens across the 11 countries of the euro-zone. But they merely emphasised continuing wide price disparities between individual European Union states.

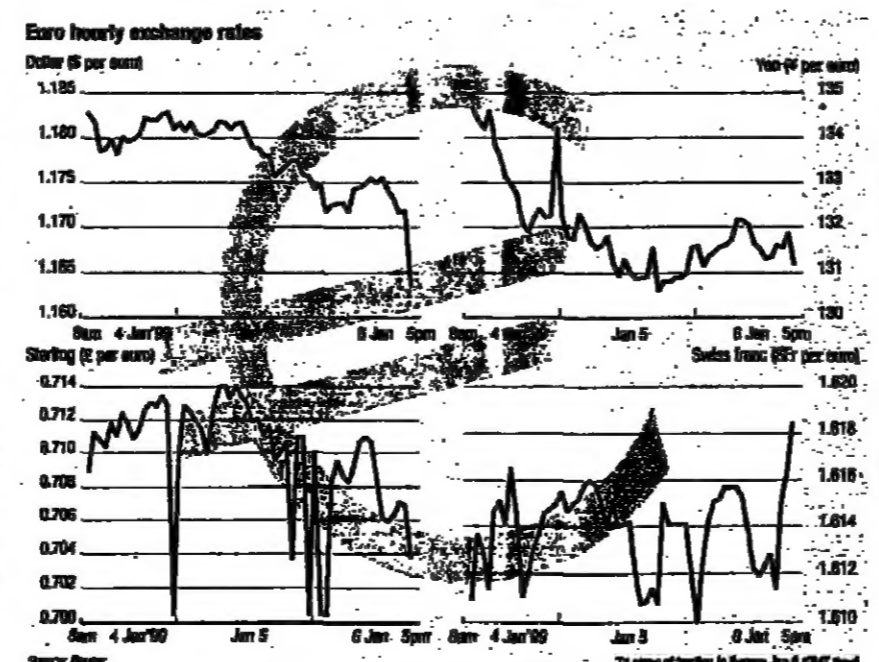
Prices of many cars from the volume producers are shown still to vary by up to 25 per cent in the EU and by up to 50 per cent in the UK, which is outside the euro-zone and the EU's most expensive new car market.

With exchange rates no longer a factor in the euro-zone, manufacturers claim the gaps can be pinned down to two main reasons.

One is greatly differing specifications for seemingly similar cars. A 1.6 litre Opel Astra bought in Portugal is a much more simply-equipped machine than its CD-playing, air-conditioned yet identically named counterpart in Germany, says David Hopkins at General Motors' German cars subsidiary.

The other is the wide spread of taxation rates on new car purchases - up to 213 per cent in Denmark as low as 15 per cent in Luxembourg.

Despite these factors, automotive industry analysts and some car makers say euro pricing will lead to consumer pressures that will substantially narrow the price gaps by making them



transparent. Such a process should take place at least at the pre-tax level if not in weeks, then certainly within 12 months.

Currently, most manufacturers effectively subsidise the pre-tax prices they charge in high-tax countries by charging more in lower tax states. Narrowing the pre-tax differentials will also have the effect of making much clearer the big tax regime differences between states.

According to a market

study by Lehman Brothers, some car makers may choose to sacrifice sales in high-tax markets in seeking to ensure that the narrowing of price differentials does not mean dropping average pre-tax prices unprofitably far.

Manfred Lohr, in charge of euro affairs at Volkswagen, expects VW's own prices to arrive within a 5-10 per cent band in about a year, although this excludes the highest tax anomaly countries such as Finland and non-euro countries such as

the UK. In two years, virtually the entire industry's prices will have converged to such an extent there will be no reason for most would-be buyers to cross internal EU borders in search of a better deal, he says.

Garett Rhys, professor of motor industry economics at the UK's Cardiff Business School, also expects convergence at around the 10 per cent level in about a year.

Mail and euro, See Britain Page Business and the euro, Page 21

## Bonn sets financial consolidation course

**By Ralph Atkins in Bonn**

Germany's government yesterday committed itself to a financial consolidation course that would cut the public sector deficit to 1 per cent of national income in 2002 and reduce debt to below 60 per cent of gross domestic product in the same year.

The demanding targets reinforced pledges by Gerhard Schröder, chancellor, and Oskar Lafontaine, finance minister, that the Social Democrat-led government would adhere to Europe's "stability and growth" pact, which sets fiscal rules for euro currency members.

However, the programme

unveiled by the finance minister stressed the government would seek an "appropriate combination" of demand-side as well as supply-side policies, in addition to macro-economic co-ordination at European and international levels.

Analysts also warned the government could struggle to meet its targets. Cuts in interest rates have not been as pronounced in Germany as in other euro-zone countries and unemployment is set to remain high.

The projections assume economic growth this year of 2 per cent - in line with most forecasting organisations but clearly higher than the 1.4 per cent forecast this week by the Berlin-based

German institute for economic research. The public sector deficit is expected to fall from 2.5 per cent last year to 2 per cent this year and then 1 per cent in 2002.

State spending as a share of GDP would drop from 48.5 per cent last year to 46.5 per cent in 2000 - a slightly slower rate of decrease than envisaged by the government of former chancellor Helmut Kohl.

German debt, inflated by the cost of unification and having failed the target of 60 per cent set in the Maastricht treaty, is expected to drop from 61 per cent in 1999 to 59.5 per cent in 2002.

Mr Kohl had hoped to meet the 60 per cent threshold in 2001.

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سكنا من الأصل

# Ecevit is new favourite for premiership

By Leyla Boultou in Ankara

A veteran political leader has re-emerged as Turkey's likely next prime minister in what appears to be the final phase in the country's 42-day-old political crisis.

Bulent Ecevit, a 73-year-old former Socialist prime minister, had previously given up his efforts to form a new, secularist government after a rightwing rival refused to support him.

But her subsequent change of heart has reinstated Mr Ecevit as favourite for the premiership.

Unless a new administration is in place by Monday, President Süleyman Demirel has the right to name a new administration without requiring the approval of parliament.

However, it is thought likely that a coalition headed by Mr Ecevit could now command majority support in parliament.

Legislative elections are due in April. But in the interim, the powerful Turkish army is keen to keep the Islamic Virtue party from power, even though it is the single biggest political grouping.

Yesterday, Yalim Erez, the outgoing trade and industry minister, conceded that he would not be able to form a government after Tansu Çiller, the leader of one of the rightwing groupings in parliament, announced that she would now be

supporting Mr Ecevit.

President Demirel had named Mr Erez as prime minister-designate after Mr Ecevit gave up his earlier attempts in the light of Ms Çiller's then opposition.

But by the increased prospect of a coalition headed by Mr Ecevit, the stock market rose 2.21 per cent yesterday.

Ms Çiller is reluctant to see Mr Erez, a rival on the right, improve his chances in the April elections at her party's expense.

It is also in Mr Ecevit's interests to run the government until the elections in order to outshine a rival left-of-centre party, the Republican People's party.

Mesut Yılmaz, the outgoing prime minister who lost a vote of confidence last month, warned yesterday that Turkey needed a new government quickly to help steer it through a "sensitive" period for the economy.

He said that this year Turkey stood to gain an influx of new foreign investment and financing from the International Monetary Fund providing it could continue on a modest scale the stabilisation policies and structural reforms begun by his minority coalition.

The armed forces, which play an influential role behind the scenes in Turkish politics, also stepped up their demands for a speedy end to the political crisis this week.

# Turkey sees a new approach to improving ties with EU

The launch of the European single currency may drag Ankara into a virtuous economic cycle, reports Leyla Boultou

The year is 2006. Talks sponsored by the European Union are about to finalise a solution to the Cyprus problem. Turkish troops are taking part in manoeuvres with the EU's new defence force.

Even though Turkey is not a member of the EU, it has made sufficient inroads into its inflation and budget deficit to qualify for membership of the single currency, the euro, were it to become a member.

This is not just a fantasy if you subscribe to a new approach emerging on both sides as the only way to improve Turkey's troubled relationship with the EU.

For the launch of the euro, described by Turkey's central bank governor as "one of the greatest events of our age", might turn out to be an opportunity, say diplomats and officials in Ankara.

By setting high standards of monetary discipline and increasing transparency and competition, Turkey's euro-zone neighbours will drag the country into a virtuous

economic cycle that in the long run can only lead to better overall relations, say those enthused by the idea.

Ties between the EU and Turkey were most recently battered by Italy's refusal to extradite Abdullah Öcalan, leader of the PKK Kurdish guerrilla group, to Turkey. But they have long been bitterly divided over a host of other political disputes, not least the EU's pursuit of membership talks with Cyprus, even though the island remains split into Greek and Turkish halves.

Bahri Yılmaz, a professor of international economics who is also an adviser to the Turkish foreign ministry, is one of a growing number of experts to "see more benefits if we integrate economically".

The central bank hopes the euro will set a "higher standard of macroeconomic policy-making" for Turkish politicians who in recent years have allowed inflation to reach nearly 100 per cent.

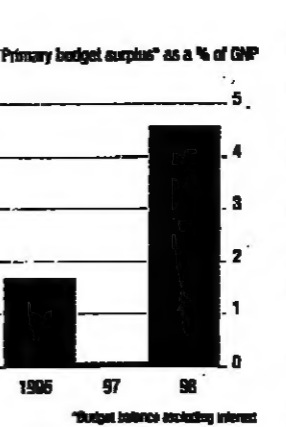
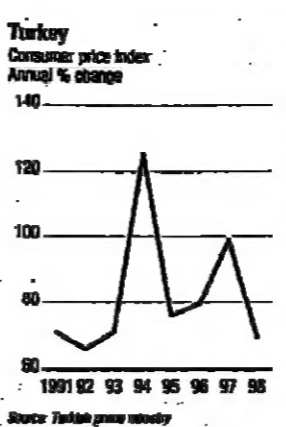
The foundations for improved economic ties are

strong. Half Turkey's foreign trade is with the EU. Turkey's liberal regime on capital and currency flows make its 60m people vulnerable, and therefore responsive to, external pressures. The customs union set up in 1994 provides for the progressive dismantling of all trade barriers, including services and agriculture.

Even closer economic ties, and the possibility that Turkey might participate in a common defence and security policy under discussion at the EU, could in turn improve the political climate.

Alexis Brouhns, Belgian ambassador to Turkey, argues that such a rapprochement could help Ankara take the "right decisions" in more contentious areas such as human rights and concessions for Kurds in the south-east of the country.

"If we focus only on political questions, it is clear that little progress will be made in, say, 10 years' time," he says. "This will create an



even greater distance between Turkey and the EU. If we extend monetary co-operation, it will make Turkey *de facto* an important partner in the European process."

In the short term, the euro is unlikely to change things much. Erol Sabanci, head of Akbank, one of Turkey's biggest private sector banks, says that initially it will be just "one more currency coming into the picture".

But in five or 10 years' time, bank executives believe the picture could change dramatically if European banks, strengthened by the cross-border consolidation that is expected in a single currency area, begin to look for growth in neighbouring markets.

This in turn could speed long-overdue restructuring

of the Turkish banking sector, and a similar positive knock-on could spread in other parts of the economy, analysts say.

Ali Tigrul, an economic and political consultant, points out that in the short term, most Turkish companies will be preoccupied with surviving an economic slowdown and credit squeeze triggered by the emerging markets crisis.

Kenan Koc, managing director of Edip, a yarn manufacturer, says survival is the priority over the next year or so.

However, he can see one immediate benefit from the euro's introduction: pricing by his European competitors will be much more transparent, since they will all start quoting prices in a common currency. And this in turn

might help him gain market share at their expense.

Longer-term, says Mr Tigrul, private sector companies handicapped by high domestic inflation and interest rates could step up pressure on Turkish politicians to fix the economy to help them compete with European rivals expected to become more efficient in a single currency area.

"The opportunities, choices, and advantages which will be available to us in such a large and efficient market will go hand in hand with our approach," says Gazi Erpel, governor of the Turkish central bank, which has worked hard to help prepare Turkish banks for the new euro-age.

"For this reason, only banks, capital markets, institutions and governments that prepare themselves well during this transition period will be able to obtain the maximum benefits."

But Turkey will still need political stability to fix its shaky public finances, cut double-digit inflation and privatise a still large, if shrinking, state sector.

Moreover, Turkey's powerful armed forces, which are often seen as an obstacle to improving political ties, could develop a vested interest in closer integration because of their desire to join a future European defence structure.

# Socialists plan for European elections

Andrew Parker, Political Correspondent

European socialist parties will today finalise a draft manifesto for June's European parliament elections, which is to include a strong endorsement of the euro as an engine for job creation.

The manifesto, to be published in March, acknowledges there will be more qualified majority voting in the European Union's council of ministers, as part of further political integration between member states.

However, in language taken from Britain's ruling Labour party, the manifesto will argue for "integration where necessary, decentralisation where possible".

The centre-left is in power in 13 of the 15 EU member states. The manifesto for the Party of European Socialists has been drawn up by a working party chaired by Robin Cook, UK foreign secretary, and assisted by Henri Nallet, European affairs spokesman for France's ruling Socialist party.

UK officials said the 3,000-word document was largely free of European jargon and could supplement the British Labour party's separate national manifesto as a campaigning tool in the run up to the European elections. It will stress that Europe's main challenge is to tackle unemployment.

The document is expected to represent a compromise between the different political philosophies underpinning the UK and French socialist parties.

While containing the UK language on the limits to political integration, it will also use words from Lionel Jospin, French prime minister: "Yes to a market economy, but No to a market society." UK officials said the document was likely to receive the support of socialist parties across the EU, in contrast to previous manifestos. "It also illustrates how Franco-British relations have become much closer," one official said.

Mr Cook said: "My role in chairing the working party shows the British Labour party is very much engaged in the European debate."

The manifesto will commit the socialist parties to deepening co-operation on defence matters.

On tax, the document acknowledges the need for a code of conduct to ensure there is no harmful tax competition between member states. "There is no commitment to have qualified majority voting on taxation matters," a UK official added.

# Shock for Italian mobile addicts

Italyans addicted to mobile phones got a nasty shock yesterday when the cost of calling cellular telephones from fixed lines soared. Reuters reports from Rome.

Under a "simplification" of tariffs ordered by the communications watchdog, the charge for telephoning a portable from a land line surged by as much as 153 per cent.

Only so-called "family" subscriptions, which give some private users cheaper rates in the evening, saw prices fall. For them, daytime calls on weekdays will now be 24 per cent cheaper. But even those users were saddled with an 83 per cent increase for calls at night and during the weekend.

It was a heavy blow for a country that is the world's biggest devotee of cellular telephones after the Nordic nations.

Mobile services are operated by Telecom Italia Mobile, a unit of Telecom Italia, and Omnitel, jointly owned by Italy's Olivetti and Germany's Mannesmann.

Last year, a third licence was awarded to Wind, a consortium led by state-run electricity group Enel, which includes France Telecom and Deutsche Telekom.

The government is planning a tender for a fourth licence.

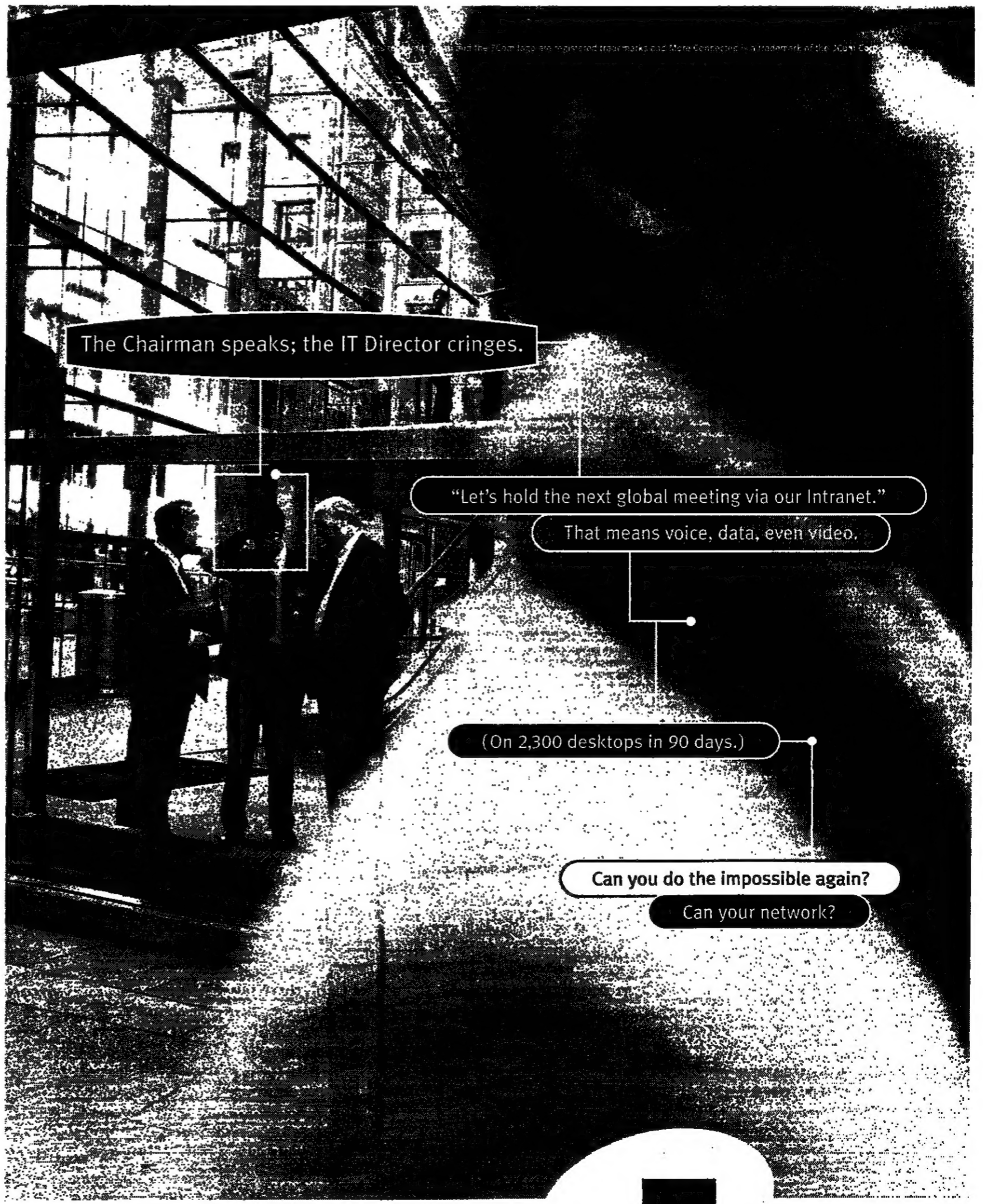
For corporate users, the tariff rises were especially steep. The new system introduced a single rate for business calls whatever the time of day, replacing a sliding scale that allowed cheaper rates in off-peak periods.

That change makes business calls at night more than 153 per cent dearer, with evening charges up 120 per cent and afternoon calls 86 per cent more expensive.

Confartigianato, an organisation representing self-employed workers, slammed the changes as grim news for companies.

"It is peculiar that the tariff simplification ends up dealing a sharp blow to users," the association said.

"Instead of the much-touted competition and liberalisation of the telecoms market, these increases seem to reinforce a monopolistic behaviour that threatens to have negative effects on companies' competitiveness."



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INTERNATIONAL

# UN rejects claims that Iraq arms inspectors spied for US

By Michael Littlejohns in New York, Randa Khafif in Baghdad and Stephen Fidler in Washington

Top United Nations officials yesterday rallied to the defence of the UN's integrity and impartiality following reports that its disarmament commission in Iraq had been used by US intelligence as cover for spying.

Kofi Annan, the secretary general, had "no evidence of any kind that Unscocm (the disarmament commission) had assisted US intelligence," Fred Eckhardt, his spokesman, said.

Reports in yesterday's Washington Post and the Boston Globe said that Mr Annan had received evidence about eavesdropping activities which had helped the UN listen to sensitive communication between

members of the Iraqi regime. Iraq has long accused Unscocm of spying on behalf of the US. Baghdad's suspicions of Unscocm were often behind its obstruction of weapons inspectors work.

Earlier, Richard Butler, Unscocm's chairman, disclosed that more than 40 states, including the US, offered help after Baghdad put up "a wall of resistance" to weapons inspections,

through false declarations, concealment, continuous obstruction and attempts to "defeat our work".

Recalling that Security Council resolutions requested such assistance, he rejected allegations that it was used improperly.

"We never accepted or used any of that assistance for any other purpose," he said. "Not for any member states' national purpose,

only for our own purpose of seeking to bring about the disarmament of Iraq."

The lengthy accounts, in both newspapers, repeated long standing rumours that Mr Annan wanted to be rid of the beleaguered Unscocm chief, but Mr Eckhardt said this was "not so", and there was no discussion of other candidates. He emphasised that Unscocm was a subsidiary of the Security Council

and that Mr Butler did not work for the Secretary General.

But he said Mr Annan did discuss with the commission chairman the question of possible US intelligence aid when he became aware that the press reports were being prepared.

The reports also seemed to cause genuine surprise among some UN officials close to the secretary-

general. James Ruben, the US state department spokesman, said US support for Unscocm had been specifically tailored to help the inspectors, and for no other purpose.

As the controversy over Unscocm unfolded, Iraq and the UN appeared headed for another crisis, over the fate of British and US humanitarian workers working on the UN oil-for-food programme

in Baghdad. The UN secretariat in New York told Iraq it rejected Baghdad's demand to replace 14 British and American humanitarian employees.

Diplomats said the move appeared to be aimed in particular at the de-mining teams working along Iraq's border with Iran and Turkey.

## Israel's soft-spoken peacemaker steps into harsh electoral battle

By Avi Machlis in Tel Aviv

Israel's former army chief of staff, Amnon Lipkin-Shahak, faced the cameras yesterday with the quiet confidence and charismatic smile for which he is known, and announced his candidacy for the premiership.

But after facing the press, Israelis were little the wiser about the mysterious military man who could be the dark horse of the May 17 elections.

Launching his campaign with an appeal for unity filled to mask Mr Shahak's lack of original policies for regional peace or security. Yet his avoidance of sound bites and his soft-spoken style, even as he attacked Benjamin Netanyahu, prime minister, may be his biggest asset. Many Israelis are fed up with the empty slogans of current leaders.

Mr Shahak, 54, was born in Tel Aviv and joined a military preparatory school in 1962. As a junior officer, he was twice awarded Israel's

prestigious medal of valour, and rose through the ranks to become chief of staff in 1986. His tenure was unremarkable. The only big military event was Israel's blitz on southern Lebanon in April 1986 which included a devastating failure - the shelling of a United Nations base that killed 100 Lebanese civilians.

But Mr Shahak's last years in uniform are most remembered for his senior role in negotiating the Oslo peace accords between Israel and the Palestine Liberation Organisation (PLO).

"The Process", a recently published book on the Oslo negotiations by Uri Savir, Israel's former chief negotiator, affords some rare glimpses into Mr Shahak's

skills. In March, 1994, Mr Shahak was dispatched to Tunis with a small delegation to persuade Yasser Arafat, PLO chairman, to return to the table after an Israeli extremist massacred 31 Palestinians in Hebron. Mr Arafat demanded an evacuation

of Jewish settlers from the West Bank town.

Mr Shahak says the book began by "expressing in his soft, steady tone, his personal regret for the massacre." He then reassured Mr Arafat that Israel was cracking down on Jewish extremists. Mr Arafat would not budge.

The next day, Mr Shahak took Mr Arafat aside to the PLO guesthouse kitchen, where it took him only 30 minutes to soften Mr Arafat.

However, Mr Shahak's involvement in the talks attracted criticism from Mr Netanyahu, then opposition leader, who was angry that the Labour-led government was employing generals as senior negotiators.

After Mr Netanyahu's election in 1996, the two had a stormy working relationship. Israeli military correspondents said Mr Shahak vetoed several reckless military operations prepared by Mr Netanyahu. And last June, Mr Netanyahu tried to silence Mr Shahak during a

cabinet meeting, claiming he was expressing political opinions.

These clashes underscore what may prove Mr Shahak's biggest challenge in capturing Israel's centre: shaking off his association with the previous Labour-led government. Mr Shahak's top campaign managers are former aides to Shimon Peres, the previous Israeli prime minister and architect of the Oslo accords.

The assassination of Mr Rabin, his mentor, in November 1995 by a Jewish radical opposed to the peace process, made a deep impact on Mr Shahak's decision to enter politics.

But no general - not even Mr Rabin - ever jumped straight from the army into the premier's seat. With Israel's political system rapidly fragmenting, Mr Shahak must prove he is capable of leading a bitterly divided society and political system. And that, will require far more than a photogenic smile.



Lipkin-Shahak announcing his candidacy yesterday. His quiet confidence could be his biggest asset in a tough campaign

## Khatami on top as ministry admits murder link

By Robin Allen in Dubai

Mohammad Khatami, Iran's reformist president, appears to have made a dramatic breakthrough in his battle with the hardline clerical establishment after the intelligence ministry had to admit that its agents had been involved in recent murders of secular and intellectual leaders.

The intelligence ministry, officially known as the information ministry, admitted that an unspecified number of its agents, six according

to the Tehran press yesterday but nearer 60 according to one Iranian analyst, had been arrested.

"The intelligence ministry clearly understands the dimensions of this catastrophe," it said.

A series of six murders and unexplained disappearances of prominent secular figures and reformist intellectuals late last year shocked Iranians, particularly supporters of Mr Khatami who accused Qorbanollah Dorri Najafabadi, the intelligence minister, of being

behind a plot to intimidate and discredit the president.

All six had been outspoken critics of the clerical establishment.

Mr Khatami's apparent failure, until this week, to exert his authority to discover who was responsible was also driving a wedge between his more activist supporters who were becoming visibly impatient, and the "silent majority" of ordinary Iranians.

Since a landslide election victory last year pitched Mr Khatami into office, he has

consistently tried to translate nationwide support into national authority.

Against him are conservative vested interests, who form the largest group in parliament and are led by Ayatollah Ali Khamenei, Iran's spiritual leader, who has control of many levers of power, including the armed forces, law-enforcement units of the interior ministry, including the police and security forces, state radio and television, the judiciary and foreign policy.

Within these groups are, according to Mr Khajepour, "the dark forces, a coalition of business and intelligence people who want to monopolise power and have been trying to discredit Mr Khatami and destabilise Iran by terrorist acts."

But with Mr Khatami hitting back, "some of the renegades are now willing to trade information in return for their own safety."

Others, like Ali Razini, the dehard head of the Tehran judiciary wounded on Tuesday in a grenade attack on

his car, may be suspected of knowing too much, and are themselves targets from the groups.

The president, according to one analyst, "has shown he is capable of exerting his authority in one of the hardliners' most sensitive strongholds. The hardliners, for a change, have their backs to the wall. Ayatollah Khamenei will find it harder to justify not only his own personal control over the intelligence ministry but also the secrecy of its operations."

## WORLD TRADE

# Airbus wins sales battle on Boeing's home ground

By Christopher Parkes in Los Angeles

Airbus Industrie has extended its reach into rival Boeing's home territory with a deal to sell 30 single-aisle airliners, valued at \$1.2bn, to Bouillou Aviation Services, a German-owned leasing company based in Washington state.

The contract for 15 A319s and 15 A320s, with deliveries to start in February 2002, plus options on an undisclosed number of additional

aircraft, marks a further significant US advance for the European consortium.

It also suggests there has been no let-up in the price war between the world's leading commercial aircraft makers which has added to Boeing's woes with a shortage of Asian orders and long-standing production problems.

Bouillou, recently acquired by Deutsche Bank - which has close links with DaimlerChrysler, a senior Airbus partner - had previously bought only Boeing aircraft.

Last year British Airways and Trans World Airlines departed from their Boeing-only policies with firm orders for almost 60 Airbus jets, and US Airways ordered 30 wide-bodied A330s in its first non-Boeing deal in this category.

The British Airways defection prompted renewed complaints from Boeing about the Airbus pricing policies, with one official saying producing at a loss was not an

option for the US company nor its shareholders.

Noel Forgeard, Airbus chief executive, said Bouillou's order marked the start of a promising relationship.

Negotiations which began before Deutsche Bank showed an interest in buying the US company had been concluded last October, according to Robert Genies, chief executive, and the announcement had been delayed pending completion of Deutsche Bank's takeover.

Bouillou, previously owned by Japan's Sumitomo Trust & Banking, is expanding aggressively despite the current slow growth in air traffic, with plans to increase its portfolio to 150 aircraft by 2005, and join the top three in the leasing industry.

Its inventory currently comprises 33 Boeings, leased to 16 airlines including British Airways, Air New Zealand and Virgin, and it has options on a further 63 Boeing 737s.

The company also has a 35.5 per cent stake in Singapore Aircraft Leasing Enterprise (Sale), with 14 airliners on its books, of which half were made by Airbus. Mr Genies said Sale's total could reach 80 in seven or eight years.

Before yesterday's announcement, the two companies had outstanding orders and options on about 100 aircraft, valued at \$6bn.

Mr Genies said the experience of the downturn in air traffic in 1991/92 had shown

that single-aisle aircraft "can be managed through a down-cycle very nicely."

Prospects for a return to growth in air traffic were also good, he claimed, because experience demonstrated that, despite the impact of cyclical dips, demand regularly returned to its historical growth rate of about 5 per cent a year.

Under the terms of the contract announced yesterday, Bouillou may change its order and take a mixture of A320s, A319s and A321s.

## Indian Reebok imitators raided

By Amy Louise Kazmi in New Delhi

Reebok India has launched a crackdown on Indian companies that have flooded local bazaars and upmarket retail shops with counterfeit versions of their popular sports clothing and cricket bats.

Armed with an injunction from the Delhi high court, Reebok officials, local police and private investigators raided the premises of five manufacturers in New Delhi and two towns in the state of Punjab that had used the Reebok logo to decorate T-shirts, sports clothing and cricket bats without company permission.

Hemant Singh, a lawyer for Reebok, said the plethora of cheap imitations of Reebok products in India's markets and shops was eroding the company's elite brand identity. "People who are genuinely wearing Reeboks definitely don't like seeing cheap Reebok products worn by every Tom, Dick and Harry," Mr Singh said. "They are very expensive footwear and clothes. You don't want to see your driver and peons wearing the same."

Merchandise worth an estimated \$25,000 was seized from the manufacturers, a Reebok spokesman said.

India, which does not currently recognise product patents, has been struggling to offer stronger protection to intellectual property rights, including trademarks and company names. In another recent judgment, the Delhi High Court shut down a travelling carnival that called itself the "Disneyland Amusement Park," and sold merchandise using Disney's trademarked characters, including Mickey Mouse and Donald Duck, without authorisation.

## Pump makers foresee strong global demand

Peter Marsh reports on an industry that is confident it can escape the effects of the Asian crisis in coming years

The world's pump industry, which serves a range of sectors, from cement production to water treatment, looks set to crank up production substantially over the next few years, in spite of the impact of the Asian economic crisis.

While leading pump companies are generally cautious about the short-term outlook in south-east Asia, which has been responsible for much of the industry's expansion in the 1990s, they are confident that other large projects elsewhere will keep the sector whirring convincingly over the next five years.

"The market is in good shape," says Josef Gerstner, chief executive of KSB of Germany, the world's third biggest pump producer and the largest in Europe.

Pumps push liquids or gases in a large number of industrial processes, including semiconductor produc-

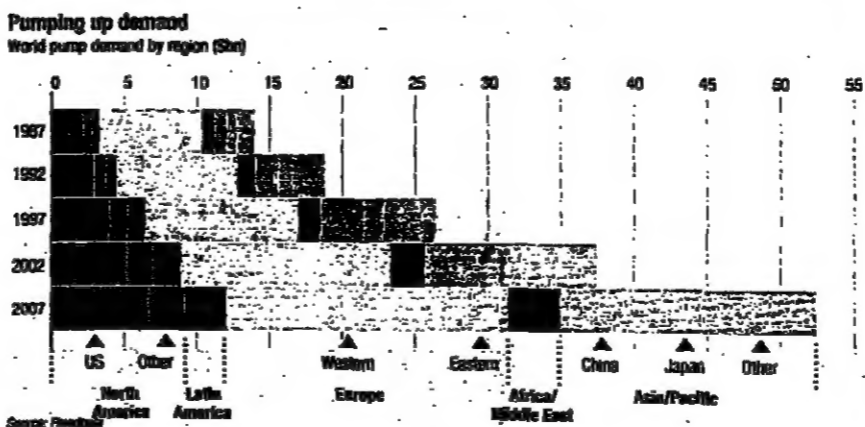
tion, chemicals and oil and gas. One of the factors helping to sustain the growth of the world's biggest pump companies is the diversity of their product range: individual pumps can sell for anything from a few hundred dollars, for the types that fit in to domestic central heating systems, to several million dollars for pumps used in big oilfield or water control projects.

Each of the 70 large pumps being fitted by IIT industries of the US, the world's biggest pumpmaker, to an \$18m flood-control system in New Orleans is powerful enough to pump 500,000 gallons of water a minute, while the most sophisticated turbopumps used to create vacuums propel air at three times the speed of sound.

According to a report by Freedonia, a US consultancy, world pump sales will expand from \$26.4bn in 1997 to \$37.5bn in 2002, with



Servicing water pumps in Yorkshire. Global output is rising



output of pumps from the region, caused by the competitive boost many producers in this part of the world have gained as a result of the devaluation of local currencies. Manufacturers in the Asia Pacific region will be responsible for about a third of world pump production in 2002, Freedonia forecasts, up from less than a quarter in 1992.

While parts of south-east Asia have experienced a sharp fall in pump sales, demand for pumps in China is continuing to expand at up to 15 per cent a year, according to Mr Gerstner of KSB.

Sir Ron Garrick, chief executive of Weir, Britain's biggest pump maker, also reports strong growth in pump sales in Taiwan and

Australia, while sales of marine pumps in South Korea, driven by a rebound in the country's shipbuilding industry helped by the devaluation of the Korean currency, are also climbing, according to Sir Ron.

"The industry is set for a better time over the next few years than many people expect," he says.

A disappointment for the industry generally, however, has been weakness in demand for pumps in South America and Eastern Europe, says Dick Labrecque, chief executive of the pumps division of IIT. Mr Labrecque is less optimistic than other industry players about the short-term trends in the industry; he reckons his company in 1999 is unlikely to expand its pump

sales much above the \$1.5bn expected for 1998.

But taking a rosier view is David Devonshire, chief financial officer of Ingersoll-Rand, another big US pumpmaker, which runs its pump division as a joint venture with Halliburton, the US oil and gas services and engineering company. Mr Devonshire says the industry is being given a general boost by extra spending on water treatment projects, driven by tougher environmental legislation in parts of Europe and the US. Extra demand due to such projects in these regions is helping to compensate for lower pump demand in parts of Asia, says Mr Devonshire.

\*World Pumps, Freedonia, 767 Beta Drive, Cleveland, Ohio, 44143-3226, \$3,900

السؤال من الاجل

IMPEACHMENT TRIAL HEAVY LOSS OF SUPPORT FORCES CLINTON FOES TO THINK AGAIN

# Backlash puts renewed pressure on Republicans

By Gerard Baker in Washington

Shortly after noon today, a gaunt figure in a dark suit and tie will swear an oath in the well of the Senate floor and proceed to open what has already been somewhat predictably dubbed the Trial of the Century.

William Rehnquist will be only the second chief justice in US history to exercise the most extraordinary and consequential duties - presiding over the impeachment trial of the president.

But the opening ceremony - in which the articles of impeachment passed by the House of Representatives will be read to senators by Henry Hyde, chairman of the House Judiciary Committee, and senators sworn in as jurors - is about the only part of the proceedings clearly foreseeable.

Negotiations are expected to continue right up to the start of business between Senate Republicans, Democrats, the House "managers" of the trial and the White

House. They hope to reach by then a so far elusive agreement on how to proceed.

The reason the haggling has been so intense is not simply because historical precedent is so patchy on how to try a president accused of "high crimes and misdemeanors".

It is that delicate political calculations about the case are weighing heavily on the minds of all those involved except perhaps the unelected chief justice-for-life, Mr Rehnquist.

Most Republicans believe that President Bill Clinton's alleged offences - perjury and obstruction of justice - should be thoroughly examined in the Senate courtroom. But they are acutely aware of the political toll that the Monica Lewinsky affair has taken on their party. So far it has more or less directly cost them two Speakers of the House, the loss of five House seats in last November's mid-term congressional elections, and a massive collapse in popu-

lar support since then. Opinion polls indicate the unpopular prosecution of the president has aroused widespread disgust at those - the Republican party - deemed responsible. According to one poll at the weekend, the party's standing has sunk since the House voted impeachment last month to its lowest level since Richard Nixon resigned in 1974.

Senate Republican leaders are understandably eager to call a halt to the bloodletting. A large number of Republican senators are defending narrowly won seats in the 2000 elections, and party bosses are anxious to dispose of the Lewinsky affair and rebuild their fortunes in time for a tilt at the presidency when Mr Clinton steps down.

For all the popular pieties senators are more politically vulnerable to shifts in voters' opinions than House members.

That was the reason Trent Lott, the Republican Senate minority leader, last week floated his "trial balloon" of

an almost indecently quick trial. Concerned at the prospect of a prolonged trial featuring a colourful cast of witnesses from Ms Lewinsky herself to Linda Tripp, Kenneth Starr and others, Mr Lott asked his colleagues for views on an abbreviated procedure. It would last four days and would feature no witnesses. At the end a vote would be held to determine whether or not the offences Mr Clinton was alleged to have committed were impeachable.

Only if two-thirds of senators voted "yes" to that - the number ultimately required to secure Mr Clinton's conviction and removal from office - would the trial continue. If - as seems likely - fewer than two-thirds voted yes, the Senate would then move to consider a censure resolution.

Given that all 45 Senate Democrats seemed prepared to back the plan, it would have needed the support of only six of the 55 Republicans to gain the simple majority needed for approval

Colder: 55 Number of Republicans

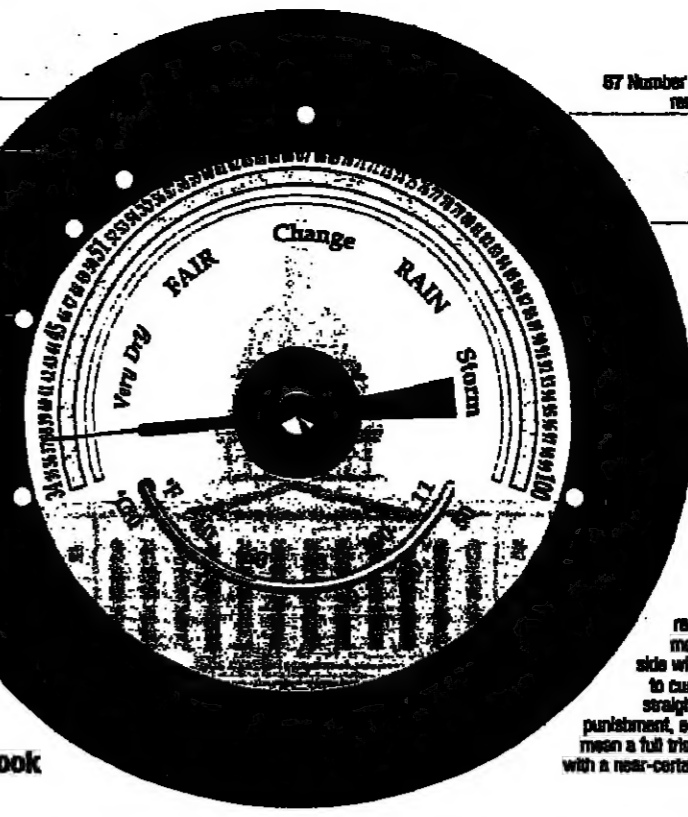
Changeable: 51 (simple majority) Number needed to approve almost any decision on how the trial proceeds, eg whether short or lengthy, with witnesses or without

Warmer: 45 Number of Democrats

Hot and dry: 34 Number needed to block a conviction and removal from office

## Pressure rising: impeachment trial outlook

of any procedural motion. But the balloon crashed to earth with a thud in the last few days as Republican senators shot it down. And as negotiations continued yesterday it was still unclear what kind of procedure would emerge. But the likeliest outcome seemed to be that some sort of open-ended trial would begin.



Out in the cold: 67 Number needed to convict and remove President Clinton

100 Total number of senators acting as trial jury

A two-thirds majority (67) for conviction seems beyond the reach of Mr Clinton's adversaries, barring unusual events in the next few weeks. But with a clear Republican majority (55-45), it would require only a handful of moderate Republicans to side with Democrats to agree to curtail the trial and move straight to a vote on a lesser punishment, eg a censure. That may mean a full trial of uncertain duration with a near-certain outcome (acquittal).

Why do Republican senators seem so anxious to run the risk of a protracted and potentially damaging trial? Some may be concerned not about the average voter's view, but about the attitude of their conservative supporters in the party. But there is also a widespread view among Republicans they cannot simply drop the

impeachment issue without fulfilling their constitutional duty to conduct a trial. Most appear to believe they must at least start the trial, proceed for a week or two and then find a way of curtailing it before it inflicts too much damage on them. But that may prove tricky. Once the proceedings begin, they will be hard to stop.

Yesterday, the White House stepped up the pressure by warning if a single witness was called, that would open the floodgates - Mr Clinton would call numerous people to testify in his defence. The result could be a protracted process, lasting months, ending in the president's acquittal, and damaging the Republicans still further.

# US forecasts record \$76bn budget surplus

By Deborah McGregor in Washington

The Clinton administration yesterday forecast a federal budget surplus of about \$76bn for the current fiscal year, higher than previously projected, due to robust revenue growth and the continuing strength of the US economy.

Proclaiming that the "era of big deficits is over", President Clinton said the US is on track to register the largest surplus in the country's history in the 1999 fiscal year ending on September 30. But he also warned that fiscal discipline must not be abandoned and repeated his oft-voiced desire to see the Social Security safety net repaired before other claims on the surplus are entertained.

"We worked hard to bring fiscal discipline to produce this surplus," said Mr Clinton. "Like any family with long-term financial needs and a little more earnings than we expected, we can't go out and spend the surplus today. We have to plan for the future."

The US registered a surplus of \$70bn in fiscal 1998, the first in 20 years after a long string of federal deficits.

The administration's latest estimate is higher than its original prediction of last May, when the Office of Management and Budget projected a fiscal 1999 surplus of \$54bn. A strong surge in revenues from taxes, including capital gains receipts, contributed to the higher-than-expected income for the federal treasury.

Congressional estimates of the surplus, as calculated by the Congressional Budget Office (CBO), are due to be updated later this month before the president presents his fiscal 2000 budget in February. In November, the CBO projected a \$63bn surplus for fiscal 1999.

In the context of the over-

all \$1,700bn US budget, the surplus is small. But it is producing a political quandary for Mr Clinton and the Republican-led Congress as the two sides square off over budget priorities.

Surpluses are expected to total more than \$1,500bn over the next decade. With the Social Security retirement system bound for insolvency by 2032 if nothing is done to restore it, the administration says saving Social Security is its number one domestic priority.

Many Republicans, however, wish to see the surpluses used to finance tax cuts. And many economists have urged the government to use at least a portion of

**'We can't go out and spend the surplus today. We have to plan for the future'**

the excess money to pay down some of the \$5,500bn national debt. Sales of new homes in the US hit a new record in November, the government reported yesterday, as ample job opportunities and soaring levels of consumer optimism fuelled sales increases from coast to coast. Reuters reports from Washington.

The Commerce Department said that new home sales jumped 7.6 per cent to a seasonally adjusted annual rate of \$65,900 following an upwardly revised 6.4 per cent gain in October to \$67,000 instead of \$61,000 as previously reported.

The monthly sales rate during November eclipsed Wall Street economists' forecasts for a gain in sales to \$73,000 a year and underlined vigorous consumer demand in the domestic economy.

# Accord nearer in basketball dispute

By Richard Waters in New York

An 11th-hour compromise yesterday looked set to save basketball from becoming the first professional sport in the US to lose an entire season to a labour dispute.

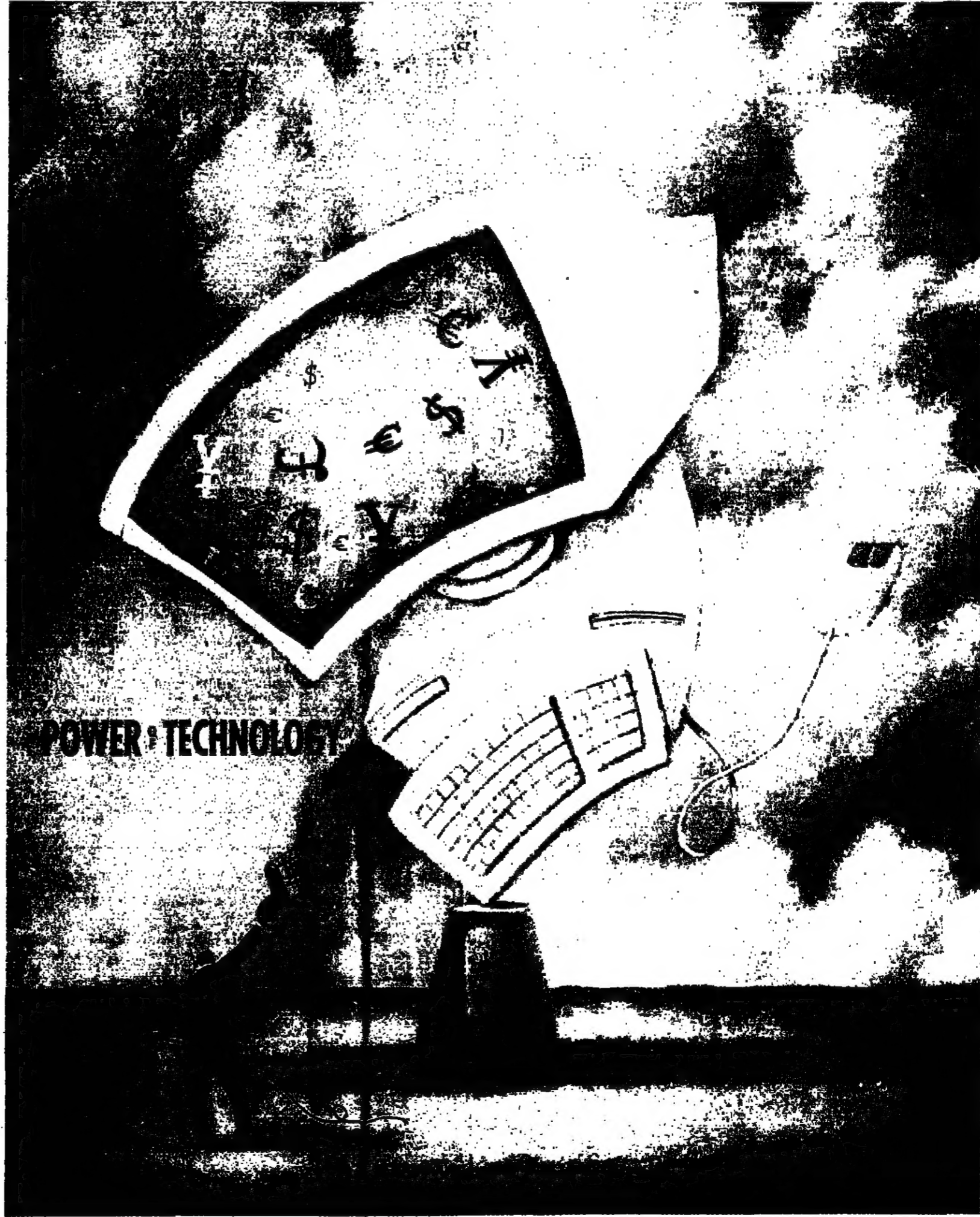
It also promised to limit some of the damage suffered by NBC, the television network owned by General Electric, which has relied on the sport for some of its biggest audiences and highest advertising rates.

The National Basketball Association had set today as a deadline for deciding whether to call off its entire season. A lock-out by team owners, prompted by a dispute over pay, has meant that no games have been played since the season's scheduled start last October.

With regular-season league games scheduled to run only until April, leading to the widely followed play-offs, time was running out to mount a serious season.

The threat of losing the play-offs appeared yesterday to have been enough to draw the two sides far enough from their positions to reach a compromise. The knock-out games at the end of the season draw by far the biggest television audience, contributing an estimated two-thirds of all the advertising revenue that NBC would normally generate during a basketball season.

The two sides had been divided over how to share the nearly \$3m in revenues that the NBA expects to generate this year, most of it through licensing deals.



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ASIA-PACIFIC

BLEAK PICTURE FINANCE MINISTER PREDICTS BIGGER BUDGET DEFICIT TO SPUR ECONOMY □ BOND ISSUES EXPECTED TO INCREASE

China lowers growth hopes

By James Kyngie in Beijing

China's finance minister, Xiang Huaicheng, yesterday painted a bleak portrait of the country's economic prospects this year and forecast that an increased budget deficit would be needed to spur economic growth.

"The internal and external economic situations in 1999 leave no room for optimism," Mr Xiang said in a statement. "Therefore, the Chinese government will continue to pursue proactive fiscal policies, which would necessarily increase the budgetary outlays to a certain extent."

Mr Xiang's remarks represent the most downbeat assessment of China's economic prospects in 1999 yet heard by a senior leader. He forecast a budget deficit this year of RMB105.3bn (\$12.7bn), up from RMB96bn last year, but added that the deficit could well be higher than his prediction.

into account RMB50bn of a RMB100bn special infrastructure bond issue in August. Mr Xiang's RMB105.3bn forecast for this year's deficit includes the RMB50bn left from the bond issue.



Xiang Huaicheng: 'No room for optimism'

NEWS DIGEST

INTEREST RATE RAISED

Taiwan tries to ease life for hard-pressed banks

Taiwan threw another lifeline to its banks yesterday, hoping they would pump loans into the slowing economy amid faltering confidence in the financial markets.

Industrial parks' tax perks to be phased out

By James Kyngie

China threw into doubt yesterday the future of 44 important industrial parks across the country, including a US\$20bn Singaporean flagship project trumpeted by the city-state's leaders as the optimum way for foreign manufacturers to enter the unpredictable Chinese market.

tax perks enjoyed by the industrial parks appeared set to jeopardise the revenue stream of the companies that run the "economic and technology development zones".

rebates have constituted an important source of revenue. But although the disappearance of this revenue is expected to hit the companies running the parks, it may not have any direct impact on the thousands of enterprises - including many foreign companies - which occupy the zones, analysts said.

Mr Xiang said the move would help create a level playing field for all companies in China. "When (foreign companies) made the investments, we told them to prepare for equal competition one day. Of course, when that day arrives, they will suffer losses and start complaining," Mr Xiang said.

the relative shrinkage of China's tax base. Between 1978 and 1995, budgetary revenues shrank from 35 per cent of gross domestic product to 11 per cent. A significant fiscal stimulus package launched last year and an increased budget deficit forecast this year have intensified the need for fiscal revenues.

established five years ago. It will reduce the rate to 75 per cent in the sixth year, 50 per cent in the seventh, 25 per cent in the eighth and zero in the ninth.

CHINESE SPECIAL POLICE

Anti-smuggling force set up

China has set up a 6,000-strong police force as part of a battle against rampant smuggling, state media said yesterday, with another 4,000 officers joining the force by the end of June.

Gitic creditors called to meeting

By Louise Lucas in Hong Kong

Guangdong International Trust and Investment Corp (Gitic), the Chinese investment agency, has called a meeting of creditors on Sunday following its closure on October 6.

faxed invitation merely said creditors would be informed of "the liquidating situation of Gitic assets and liabilities," according to a recipient.

Following Gitic's closure, there has been far greater uncertainty, while Beijing has said that registered debts will be repaid, and that foreign creditors will be made a priority, until guidelines are issued bankers remain wary.

ing its state-owned sector. Moreover, the status of some loans is unclear, such as short-term credit lines and loans to Gitic's overseas subsidiaries.

Japan sees fall in construction orders again

By Alexandra Harvey in Tokyo

The crisis in Japan's construction sector deepened in November, in spite of the government's injection of thousands of billions of yen in public works projects, figures released yesterday by the government revealed.

credit crisis amid the country's prolonged recession, are not spending funds allocated by Tokyo for public works.

BANGLADESH POLITICS

Parties unite over election

Three Bangladeshi opposition parties yesterday announced a tactical alliance to try to force the government of Sheikh Hasina to call an early election.

Financial Times Conferences advertisement for 'NEW MEDIA AND BROADCASTING' conference on March 3 & 4, 1999 in London. Includes speaker list and registration details.

JAPAN POLITICS PM PASSES TEAMS ASSIGNED TASK OF HAMMERING OUT POLICY PACTS

Obuchi pushes for Liberals link

By Michiko Nakamoto in Tokyo

Keizo Obuchi, Japan's prime minister, left Tokyo for Europe yesterday, with explicit instructions to key members of the ruling Liberal Democratic party (LDP) to finalise talks with the opposition Liberal party over forming a coalition.

tious issues that have held up formation of the coalition since it was first agreed in November.

from the LDP five years ago, as traitors. Further, Mr Ozawa's return to the LDP fold has fuelled a power struggle within the LDP, between conservative members who support the coalition and more liberal elements who oppose it.

Large advertisement for Liberty Mutual insurance, featuring the text 'Liberty Mutual' and 'Management idea'.

Handwritten Arabic text: 'صلى الله عليه وسلم' (Peace be upon him).

REINSURANCE BACKGROUND OF 'OVERCAPACITY AND UNDERPRICING' IN LONDON BLAMED FOR MOVE

# Liberty Mutual offshoot quits market

By Jim Kelly in London

Liberty Re, the wholly owned UK reinsurance subsidiary of Liberty Mutual Group of the US abruptly ceased operations yesterday in a bleak indication of the state of the London reinsurance market.

The reinsurer, headed by ex-Mercantile & General Re chief executive John Engstrom, was set up in October 1996 with an initial capital base of £250m. "This is symptomatic of the current state of the market," said a leading broker. A statement

pointed to a "background of overcapacity and underpricing" in the reinsurance market - with no sign of any improvement in the foreseeable future.

Liberty Mutual said current Liberty Re policies will remain in force until their expiration dates and the company will meet all of its service and coverage commitments to policyholders.

Edmund Kelly, president and CEO of Liberty Mutual, said the group was still fully committed to the London and European primary markets through its direct UK

operations and its syndicates at the Lloyd's market. It has been in the subscription market for 25 years.

Mr Engstrom will leave Liberty Re and Mr Kelly said he had tried to create a new company in what turned out to be "an extremely difficult if not impossible market". Richard Hazell, chairman of Liberty Mutual Insurance Company UK will takeover responsibility for Liberty Re operations.

Mr Kelly said yesterday that the group was willing to commit capital when returns were adequate. "We are

more than willing to be patient but when it becomes clear adequate returns are not likely in the foreseeable future we will redeploy capital and resources to more productive uses."

The Boston-based group employs 29,000 people worldwide in 500 offices and has more than \$47bn in consolidated assets, \$57bn in assets under management and, with \$11bn in consolidated revenue, ranks 132nd in the Fortune 500.

UK pension funds returned an average of more than 14 per cent last year in

spite of third quarter stock market volatility and an overriding sense of bearishness about world markets. Jane Martinson writes.

Preliminary figures from WM company, the performance measurement group, found the average fund had benefited from rising stock markets in the west. An average return of 11 per cent for funds with some £450bn of assets under management compares with a 20-year average of 9 per cent and inflation of significantly less.

Peter Warrington, a director at WM, said: "Everyone

has been very bearish on the markets generally but if you look at what actually happened in 1998 it could be one of the best years yet."

The strong performance came in spite of the fact that the average fund expected market corrections in the period. Funds continued to reduce their holdings in UK equities last year, the largest part of their portfolios, largely as a result of bearishness about the market. WM estimates that the average fund now holds half of its assets in UK equities, the lowest level for 10 years.

## NEWS DIGEST

### CAR INDUSTRY

#### Output at Nissan factory rises by 6.3% to record

Output at the Nissan plant in north-east England, Europe's most productive car factory, increased by 6.3 per cent last year to a record 288,838 vehicles. In 1998, its first year of production, it made 5,138. Nissan said the 1998 record resulted from strong European demand following the introduction of a new Primera estate car and a newly-styled version of the Micra. Since 1986, Nissan has spent £5.8bn (\$11.4bn, €9.5bn) on components with 200 European suppliers, 70 per cent in the UK. The plant has been judged Europe's most productive for two years in succession by the Economist Intelligence Unit. In 1997, the plant made a £77.3m pre-tax profit.

VA TECH Reynolds, a north-east England manufacturer of transmission and distribution equipment acquired by Austrian-owned VA TECH from Rolls-Royce last September, has announced 90 redundancies. It blamed the Asian market downturn, starting a continuing strength and the UK government's moratorium on gas power station building. Chris Tighe, Newcastle upon Tyne

### UNIT TRUST SCANDAL

#### Ex-MGAM chief reprimanded

Imro, the fund management watchdog, ended its role in the Peter Young unit trust scandal yesterday with a reprimand for Keith Percy, former chief executive of Morgan Grenfell Asset Management, an offshoot of Deutsche Bank. A reprimand is the weakest form of public censure imposed by Imro. The affair came to light in September 1996 following the discovery of serious irregularities in the running of unit trusts managed by Mr Young, the former star fund manager. Mr Percy, sacked by Morgan Grenfell in 1995, said he "accepted the proper responsibility which must fall to the person in charge of any business when something like this happens". But he added that the Imro investigation led him to conclude that chief executives should not rely on their management team or compliance staff. Imro retorted: "You can delegate functions and responsibilities but you can't abdicate all responsibility". In setting the case, Mr Percy agreed to four regulatory breaches that largely involved a failure to check that investment irregularities were adequately dealt with. Yesterday's announcement allows Mr Percy to resume a fully registered job. He is set to become a director of SG Asset Management. Jane Martinson, London

### GOVERNMENT SPENDING

#### MPs attack defence contracts

The Ministry of Defence is severely criticised today by the House of Commons public accounts committee, which says a £3bn (£5bn, €4.2bn) cost overrun on 25 big procurement projects is "unacceptable". The committee complains that the MoD "could give us no sense of the speed or scale of improvements they hoped to achieve in relation to cost control". It attacks the ministry for failing to extract adequate damages from contractors for problematic equipment. The ministry, acknowledging the PAC had found "management of major projects is weak in almost every respect", said its streamlined procurement initiative was tackling the weaknesses. Alexander Nicoll, London

## Scottish land reform stirs old emotions

Plans to make it easier for communities to buy estates on which they live will be among the first proposals the Scottish parliament will examine. James Buxton reports

It is a measure of the emotion aroused by land ownership in Scotland that the government intends land reform to be one among the first legislation passed by the country's new parliament, to open this year in Edinburgh, the capital.

Most Scots live in towns, and tension between landowners and local people is rare in the thinly populated countryside.

But land ownership remains a highly contentious issue. This is partly because of the notorious "Highland clearances" in the 18th century, which saw hundreds of thousands of people evicted or encouraged to leave the land on which their ancestors had often lived for centuries for the cities, or countries such as Canada and the US. In many cases families had built the homes which were often burned and demolished to create large estates for sheep farming which replaced the traditional cattle-rearing business.

Jim Hunter, chairman of Highlands and Islands Enterprise, the economic development body for the north of Scotland, has said:

The situation is worsened for many Scots by the fact that some of these owners are English rather than Scottish, or from continental Europe, the US or the Middle East. They are often absent from their properties for all but a few weeks a year and trade their properties at high prices over the heads of the land's occupants.

Resentment has grown in the past decade, fuelled by a few landlords whose actions have received heavy media attention.

The small and picturesque island of Bigg, off the west

coast, was bought in the mid 1980s by a German artist who arrived with expensive promises but never returned. The large and relatively inaccessible Knockdart estate on the mainland changed hands frequently before being purchased by an entrepreneur facing charges of corruption and conspiracy to defraud.

Eigg has now been acquired by its inhabitants and a bid is being put together at Knockdart, in both cases with outside backing.

The measures outlined by the government this week should make it easier for community groups to purchase the properties they inhabit by depressing prices and making funds available from the National Lottery's New Opportunities fund. Donald Dewar, chief minister for Scotland, said it was not necessarily a policy "to break up the great estates, but clearly there will be movement".

Residents' groups would have the right to buy estates on which they lived, when they came on the market, at a price set by a government-appointed valuer. This price could be lower than another purchaser's offer.

The outcome could over time be a reduction in the number of private estates that cover much of rural



Scotland, especially in the Highlands.

The Scottish Landowners' Federation said the measures were an excessive response - for which there was little public support - to a few cases of bad landlords.

It cautioned against the government using taxpayers' money to buy properties that were not economically viable.

Others questioned how widely the measures are likely to be implemented.

"Very few estates will appeal to their local commu-

nities," says Colin Strang Steel, a specialist in country property with Knight Frank, the estate agent. "Even if community groups can buy them cheaply, who is going to pay to keep them going? It's a well-known fact that Highland estates lose a packet."

He also said it would be unfair for landowners to have to sell their land at a price dictated by a government valuer rather than market value.

"It's not very different from nationalisation," he added.

This article is the third in a series about the onset of regional assemblies in the UK.

## Euro policy will remain on track, premier insists

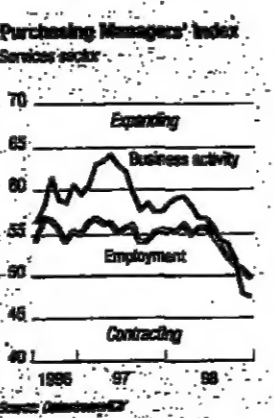
By Robert Preston, Political Editor, in Frankfurt

Tony Blair, the UK prime minister, denied yesterday that the resignation from his government last month of Peter Mandelson, an enthusiastic supporter of the European Union, would weaken the government's support for monetary union.

Mr Mandelson, a leading Blair ally in the governing Labour party, quit after disclosures about a loan he had received from another minister.

Stephen Byers, Mr Mandelson's successor as chief trade minister, had been instructed to deliver to big companies the same message as that given by Mr Mandelson: that the government was determined to make the necessary preparations for joining the euro. But Mr Blair also made clear he would not be rushed into joining.

The prime minister tried to draw a line under his government's worst two weeks by insisting his cabinet was "ideologically united" and "denouncing suggestions of a rift with Gordon Brown, chancellor of the exchequer. These domestic concerns dominated the first day of his official visit to South Africa, the primary purpose of which is to cement rela-



tions with Thabo Mbeki, South Africa's deputy president. He is widely expected to succeed Nelson Mandela as president later this year.

The UK's economic slowdown appears to have worsened in the final weeks of last year, with one in four service sector companies reporting a fall in their workload during December, Richard Adams writes. The latest survey of the services industry also found the sector was shedding jobs for the first time since the Chartered Institute of Purchasing and Supply began conducting its monthly poll in 1996. The institute surveyed 500 companies, covering business conditions in nearly a third of the UK economy. see editorial comment

## Anti-republican group bombs NI sports club

By FT Reporters and agencies

A dissident "loyalist" paramilitary group yesterday claimed responsibility for a bomb attack on a Gaelic football club in Northern Ireland.

One man was injured in the explosion at Magherafelt in the centre of the region. It was the second bombing claimed by the Orange Volunteers, whom republicans accuse of being a flag of convenience for the vehemently anti-republican Loyalist Volunteer Force.

Last month the LVF became the first terror group in Northern Ireland to start dismantling its arsenal, when it delivered a number of guns to the international decommissioning body for destruction. But Sinn Féin, the political wing of the Irish Republican Army, says the Orange Volunteers is a front for the continued activity of the LVF, which is nominally on ceasefire.

The group said it planted a booby-trap bomb in the grounds of the club in County Londonderry. It exploded at midday yesterday, slightly injuring a workman. The Orange Volunteers last month said a bomb attack on a bar had been "an attempt to assassinate a senior IRA commander who drinks in the

bar". When the organisation announced its creation in November, it issued a statement saying: "Our members are practicing Protestant worshippers. We are prepared to defend our people and if it comes to the crunch we will assassinate the enemies of Ulster. Ordinary Catholics have nothing to fear from us, but the true enemies will be targeted."

Meanwhile the government of the Irish Republic was criticised after it emerged that a security van from which thousands of pounds were stolen on Monday had been travelling through Dublin, the capital, without an escort.

The British-Allied security van contained IR£1.2m (\$1.8m, €2m) cash after collecting money from up to 30 banks in Dublin when it was rammed. Five men loaded some of the contents into their getaway car, which then broke down, prompting them to steal another car and shoot the man inside who resisted. He was not seriously hurt.

Police suspect the Continuity IRA - the only republican paramilitary group not on ceasefire - may have been behind the robbery. The men wore flat jackets and carried AK 47 rifles - a weapon associated with republican paramilitaries.

BRITISH PSYCHOLOGICAL SOCIETY RESEARCHERS REPORT SHIFT FROM EUROPEAN APPROACH

## US management ideas 'take hold'

By Richard Donkin in Blackpool

British managers are emulating their US counterparts and moving away from European management styles, researchers reported yesterday.

The study, published at the British Psychological Society's annual occupational psychology conference, looked at the management styles of 310 US and European managers.

Many of the differences between UK and US managers during the 1970s and

1980s have disappeared, according to research by Professor Peter Lawrence of Loughborough University and Barbara Senior, a management lecturer at Nene University College, Northampton.

Earlier studies contrasted the "quaint and clubby" reputation of UK managers with that of the meritocratic hire-and-fire culture of their US counterparts, said Ms Senior.

But systemised management had now taken hold in UK companies, she said. Other US ideas moving into UK companies included

differences still remained, she added.

"American managers like to work in a systemised, ordered way. They have manuals on everything and much more paperwork. They still have a hankering towards bureaucracy and they are less concerned with consultation and participation than their British counterparts," said Ms Senior.

Other US ideas moving into UK companies included

more frequent profit reporting, a concentration on shareholder value and concerns for short-term performance, the report added.

The study found far more differences between British and continental European management styles. The French, in particular, she said, maintained a strong recognition of hierarchy and status.

"If I was lecturing in France I wouldn't carry my handbags into the classroom myself, somebody else would," she said.

# JANUARY 1999

MON	TUE	WED	THUR	FRI	SAT	SUN
				1	2	3
4	5	6	7	8	9	10
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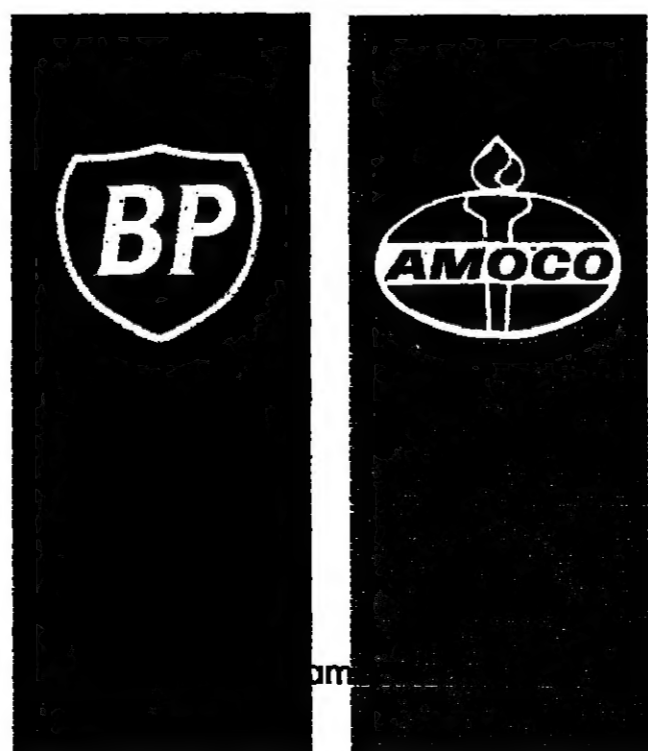
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Magical bonbons

BALLET  
CLEMENT CRISP

The Nutcracker  
Lycium Theatre, London

Birmingham Royal Ballet has been installed for a Christmas season at The Lycium in London with, of course, *The Nutcracker*. This news might be greeted with some despair, were it not for the fact that Peter Wright's staging is so delightful, so apt, so sensitive, and that BRB's dancers give it such loving attention. I went to the matinee performance on Tuesday - just before Epiphany, when such Yuletide decorations should be taken down - and was as delighted as ever by what I saw. (The seeing of it by no means easy in the Lycium, whose stalls are not well raked. Santa alone knows how some of the lots who were having their seasonal treat managed! Still, they had the consolation of the theatre's lurid decoration, all gilt and raspberry-scarlet plush, like Mae West's idea of *Le Petit Trianon*.)

Among the several delights of the performance - how well BRB's dancers maintain their, and our, interest in the action - were the debuts of two young dancers in leading roles. The Sugar Plum was taken by Nao Sakuma, very pretty, very easy in style, delightful in setting out the dance. Nothing is asked of the interpreter save technical grace, and this Sakuma gave us without seeming effort. The dance was graceful and natural as bird-song. Charming the way she phrased and paced movement - and how good to see the authentic Ivanov choreography for the celestia-ringing solo - and irresistible her air of gentle authority in the part.

A happy debut. No less so that of Chi Cao as her cavalier. I have reported with much pleasure on Cao's dancing since his appearance in a Royal Ballet School graduation performance a few years ago. Every role I have seen him take has been enhanced by a precise and admirably formed classic style. He is not tall for a balletic cavalier, but his dancing has grand dimensions, horizons, a largeness of means that are the signs of a true premier danseur. In the somewhat bleak conditions of *Nutcracker*'s grand pas de deux, Cao created real excitement by the buoyant clarity of his dancing and by its beautiful finish - exact fifth positions; harmonious placing of the torso; true nobility. Here was dancing of rare academic distinction to delight purists - but also warmed by the fire of theatrical expression. We can anticipate splendid things from him.

For the rest, the company's dancing was wholehearted, warm-hearted. The magic, and it is a staging full of magic, worked its spell, and at a season when Good King Herod's view of infant care seems especially attractive, the child performers from the Royal Ballet School were well-mannered and well worth watching.

CINEMA  
A colourful tribute to Hitchcock

Nigel Andrews confesses that he had become all steamed up over nothing

A film critic feels he must be like a military commander. "Men, we shall take our opinions that way - charge!" He should never say, "Men, we go that way; on second thoughts it might be better this way; hang on, let me think about this a moment." Before you know it Napoleon has become Hamlet, and to mix Shakespeare plays I-dare-not waits upon I-would.

Take *Psycho*. How can anyone have a simple opinion about the most complex

PSYCHO  
Gus Van Sant

LITTLE VOICE  
Mark Herman

PI  
Darren Aronofsky

THE SIEGE  
Edward Zwick

cine-proposition of the moment? When Gus Van Sant announced his decision to remake Hitchcock's classic shot for shot, though updated, re-cast and in colour, commentators including me went into flabbergasted-of-Fleet Street mode. What's the point? What a nerve. What an idea. And so on.

Then a few brave counter-voices said, "Hey, man. But it's just like a film equivalent of conceptual art. It's the thought that counts." We were prompted to see *Psycho* as cinema's equivalent to a shark in formaldehyde, upsetting but also intriguing, challenging and new-frontier.

Such voices have a point. This oddity from the maker of *Drugstore Cowboy*, *My Own Private Idaho* and *Good Will Hunting* is all those things, though it seems to me more like an Andy Warhol soup tin: devoutly look-alike, defiantly gnomish, pop-ironic, and with its own weird dignity and even likability. The logic is sound too. Since people don't see Hitchcock's film at the cinema

any more, just on TV or video, why not let them have a large-screen experience refashioned for the late 1990s? The original will still be around: it is preserved, *inter alia*, in the Library of Congress.

The changes made by Van Sant are few but multi-directional. Instead of Janet Leigh's boldly defined Marion Crane, a late-'50s sensualist with a dash of pre-feminism, we have Anne Heche playing a jittery Miss Town Mouse who decides to jump the treadmill. By contrast, Anthony Perkins's masterclass in flakiness as Norman Bates - a virtuoso with twitches and stammers - is replaced by Vince Vaughn's more muted modern-day anti-hero, with his leaky-tap giggle, tetra-chian eyes and subtly upturned top lip. (Van Sant lights from below to pick out this feature, half-sensual half-sinister.)

Meanwhile John Gavin and Vera Miles, super-squares in the first film as Marion's boyfriend and sister, are improved on by creepy he-man Viggo Mortensen (*A Perfect Murder*) and counter-culturalist Julianne Moore, trailing clouds of neurosthenia from *Safe* and *Boogie Nights*.

Everyone who dies does so Hitchcock-style, from Heche expiring in the shower in a stroboscopy of rapid cutting, to William H. Macy's detective Arbogast walking backwards down the stairs pursued by a kitchen knife. Van Sant sometimes inserts a grace-note, like the cut-ins of stormy cloudscape in the shower scene. And the Bates house is not the Gothic folly now cheapened by familiarity (you can still see it on the Universal Studio tour) but a drabber, darker, nastier blockhouse in brick, grime and stunted gables.

I found the film absorbing. Colour alone lends a new dimension. Van Sant has heralded fun pitting the crime-enhanced new dawn of Marion's life - nervously assertive in a costuming of reds and oranges - against



Shot for shot, updated and recast, an absorbing remake of 'Psycho' by Gus Van Sant: Anne Heche takes the Janet Leigh role

the greens of Norman, evoking nature and/or mildew. By finale time, when the police psychiatrist (a nice turn from Jackie Brown's Robert Forster) delivers his over-explication of Norman's mind - a speech treated here as a joke - and Norman does his "won't hurt a fly" skull-grin, we feel anything but cheated. This *Psycho* pays the old *Psycho* the tribute of not letting it alone. Any durable classic should be able to withstand time's bombardments of homage, satire, pastiche, even aesthetic vandalism. And whatever else Van Sant is, he is no vandal.

*Little Voice* is written and directed by Mark Herman, from the hit play by Jim Cartwright. I never saw this hit play but the first word must have been operative. In the film I

felt assaulted by everything, from Brenda Blethyn's bus-shed mother - the Yorkshire accent could be prosecuted for criminal ear damage - to the sentimental convulsions of a plot in which reclusive but impersonation-gifted daughter Jane Horrocks "finds her voice" one night on a club stage but won't go back again and be exploited, having also found (ahh!) her soul. She can now burn the Garland, Dietrich and Bassey records that she and her late-worshipped father so loved.

Michael Caine has a whale of a time as Horrocks's brief agent-manager, while every-one else in the cast ends up beached. Caine knows how to avoid being thrown on the tide of mushy inspiration. He looks born to vulgarity, especially in his gold medallion and floral dressing gown ensemble, yet he acts with more calibrated

wit than anyone. That includes Ms Horrocks, tire-some timorous except with the showbiz vocals, and Ewan MacGregor flitting through briefly as her pigeon-rearing admirer. Pigeons - get it? Flight and freedom? Symbolic? It is that kind of film.

*PI* is a movie about how mathematics can drive you mad, made on a budget any producer could stay sane with: \$60,000. Whether writer-director Darren Aronofsky stayed sane is another matter. The film looks like a Rorschach test gone berserk. Black and white photography, spider-trampled in appearance, is the medium for this fable of a semi-crazed maths wizard (played by co-scenarist Sean Gullette) who is convinced that complex number patterns lie behind stock market movements. In turn a giant Hasidic conspiracy, chasing

him, thinks that a secret number sequence defines the very identity of God.

*PI* was all but guaranteed cult status after winning Best Director prize at the barometric Sundance Film Festival. It is a mess, but a mess with panache. It labours the obvious: real bugs symbolising computer bugs, a milk spiral in coffee once again standing in for Chaos Theory. (Could someone please find a new image.) But it also enjoys its silent-movie looks, its richly gestural acting and what seems a genuinely passionate obsession with the wisdom of Pythagoras. You do not get that kind of *amour fou* in the average popcorn month.

New York falls victim to Islamic terrorism in *The Siege* and calls in the army. Head-and-shoulders TV shots of Bill Clinton, the rest of him no doubt surrounded by

doctors taking DNA samples, rap out presidential sound-bites. And Denzel Washington (FBI), Annette Bening (CIA) and Bruce Willis (Army) squabble over who should take charge in fighting these guys with dish-cloths on their heads (the script's ethnic slur, not mine).

This could have been an intelligent political action movie. We would like to know who controls America in a terrorist emergency, since compared to Britain the place is a virgin in such matters. But under Edward Zwick's direction there is too much puffing and blowing and shouting too many cheers for their own sake; and too much of Willis, frowning action-hero eyes to represent the comic-strip response to emergency while Washington and Bening try - foolishly, wistful folk - to act.

Coward at his most masterful

THEATRE

ALASTAIR MACAULAY

A Song at Twilight  
King's Head Theatre, London N1

The Noel Coward centenary is off to a bracing start with this revival of his seldom-seen but excellent 1965 play *A Song at Twilight* a play that is honest and morally precise where Coward was (in public) usually evasive and frivolous.

This is one of Coward's few portrait-of-the-artist plays. At first, it seems like a 20-years-on variation on *Present Laughter*, his most sur-

afire portrait-of-the-artist comedy. The celebrated Sir Hugo Latymer, now entering old age, is seen at home; his wife Hilde doubles as his secretary; his old flame Carlotta is expected for dinner; a handsome waiter is in attendance. The whole thing, at first, feels like a chamber-scale précis of known Coward effects.

Gradually, however, *A Song at Twilight* disarms the audience by becoming something quite unlike any previous Coward play. It is about character, sexuality, honesty, understanding, and repression; and it unfolds like something by Ibsen, full of suspense as it discloses the surprising past of

its protagonist and, more surprisingly, addresses the ethical and psychological implications of these disclosures.

What does happen next - I refer not to the actual plot but to its implications - is that (a) Sir Hugo is revealed as a long-closeted homosexual; (b) his long years of denial and of vanquished heterosexual inclinations are shown to have turned his talent from a penetrating vision into mere effectiveness; (c) his crucial defensiveness is now a profound or superficial artist. More important, the conclusion - accepted by all present on stage - that Sir Hugo's one great homosexual affair need not be

self exhausted when his energetic old flame Constance Collier revisited him one evening; and two, the more sinister and long-term story of Somerset Maugham's life-long repression and misogyny.

The King's Head revival is directed by a Coward expert, Sheridan Morley, and it holds the full attention. Everyone speaks their lines with unusual musicality, and the play blooms accordingly. Corin Redgrave plays Sir Hugo and Nysae Dawn Porter plays Carlotta. Theirs are not ideal performances: it is hard to see Redgrave as an ill, old writer who has been repressing his gay core, or Porter as a femme fatale. But it is very touching to see that she gives a

subtle and complex performance. As does Redgrave; both of them spring many expressive surprises in their delivery. There should be greater tension between them on numerous points, and yet Porter makes a virtue out of her very fragility and short-breathed style, as does Redgrave from his busy-tary forwardness.

Matthew Boes has the physical and expressive style to make an impression as the writer; but one does not believe in a half-Italian who mispronounces "Giovanni". The evening's most splendid performance is that of Kika Markham as the put-upon but resourceful Hilde. How gratefully, in Coward's many Coward vehicles, Coward wrote for the non-Coward characters. One admires him all the more for that.

INTERNATIONAL

Arts Guide

AMSTERDAM

EXHIBITION

Rijksmuseum  
Tel: 31-20-673 2121  
The Festival of Lithography: celebration of the 200th anniversary of the discovery of lithography. The exhibition consists of works from the collection, including lithographs by Toulouse-Lautrec, works by Cézanne, Matisse, and Dutch artists including Van Gogh; to Jan 10

CHICAGO

EXHIBITION  
Art Institute Of Chicago  
Tel: 1-312-443 3800  
www.artic.edu  
Mary Cassatt: Modern Women. 125 paintings, drawings and prints by the only American invited to exhibit in the Impressionist exhibitions in Paris. Closely associated with Degas, Monet and Pissarro, in later life she became a celebrated collector and patron. The show will travel to Boston and Washington later this year; to

Jan 10

COLOGNE

OPERA  
Oper der Stadt  
Tel: 49-221-221 8240  
Die Vögel: first modern staging for Walter Braunfels's opera. Premiered in 1920, it was banned by the Nazis and largely forgotten until a recent recording. This production is conducted by Bruno Weil and staged by David Mouchart-Samorai; Jan 6

COPENHAGEN

EXHIBITION  
Louisiana Museum of Modern Art, Humlebaek  
Tel: 45-4919 0719  
www.louisiana.dk  
Joan Miró: major retrospective of the Spanish Surrealist painter comprising 140 paintings, drawings and sculptures, including works borrowed from the artist's family since the exhibition was shown in Stockholm over the summer; to Jan 10

HAMBURG

EXHIBITION  
Kunststhal  
Kandinsky, Chagall, Malevich and the Russian Avant-Garde: show tracing the art movements between the Russian revolutions of 1905 and 1918, and focusing on attempts by artists to fuse aspects of folk culture with Western modernism. Many of the 100 works on display are on loan from Russian museums; to

Jan 10

LONDON

CONCERT  
Barbican Hall  
Tel: 44-171-638 8891  
London Symphony Orchestra: conducted by Ryusuke Numajiri in works by Saint-Saëns and Tchaikovsky, as well as the UK premiere of Sofia Gubaidulina's 'The Canticle of the Sun'. Featuring cello soloist Mstislav Rostropovich; Jan 13

EXHIBITION

Victoria and Albert Museum  
Tel: 44-171-938 8500  
Aubrey Beardsley: more than 200 drawings, prints, posters and books created during the brief period of the artist's fame. A member of the fin-de-siècle avant-garde, Beardsley left England for Dieppe following Wilde's disastrous libel action and subsequent imprisonment in 1895. The exhibition, which arrives in London after touring in Japan, marks the centenary of Beardsley's tragically early death, aged 25; to Jan 10

THEATRE

Albery  
Tel: 44-171-878 1115  
Mr Puntilla and his man Matt: Kathryn Hunter's production of Brecht's satirical comedy moves from its October run in the Almeida Theatre to the West End. Comic duo Sean Foley and Harnish McColl play the title roles; Jan 7, 8, 9  
National Theatre

Tel: 44-171-928 2252  
Betrayed: by Harold Pinter. Trevor Nunn directs Pinter's 1978 play, with a cast including Anthony Califf and Imogen Stubbs; Lyttelton Theatre; Jan 8, 9, 11, 12

LOS ANGELES

OPERA  
L. A. Opera, Dorothy Chandler Pavilion  
Tel: 1-213-972 8001  
www.laopera.org  
Madama Butterfly: by Puccini. Conducted by Marco Guidarini and directed by Christopher Harlan. With a cast including Yoko Watanabe, Richard Leech and John Atdins; Jan 10, 13

NEW YORK

EXHIBITIONS  
Guggenheim Museum SoHo  
Tel: 1-212-423 3500  
www.guggenheim.org  
Premises: Invested Spaces in Visual Arts, Architecture & Design from France, 1958-1998. Exploration of the different ways in which artists have engaged with space. Display ranges across installation, film, video, photography and architecture. Includes works by Yves Klein, Le Corbusier, Louise Bourgeois, and Sophie Calle; to Jan 10

Metropolitan Museum of Art  
Tel: 1-212-579 5500  
www.metmuseum.org  
The Nature of Islamic Ornament, Part II: Vegetal Patterns. Second in a four-part series on Islamic ornament from the 8th to the

18th century. Includes rare broccades and carpets; to Jan 10

Pierpont Morgan Library  
Tel: 1-212-685 0008  
Master Drawings from The State Hermitage Museum, St. Petersburg, and The Pushkin State Museum of Fine Arts, Moscow. 120 European drawings dating from the 15th to the 20th centuries, some of which have never before been exhibited outside Russia. Includes works by Rembrandt and Dürer, with particular emphasis on the modernists Matisse and Picasso; to Jan 8

OPERA  
Metropolitan Opera, Lincoln Center  
Tel: 1-212-362 6000  
www.metopera.org  
Die Fledermaus: by J. Strauss. Revival conducted by Patrick Summers. Cast includes Carol Vaness, Jochen Kowalski and Bo Skovhus; Jan 9, 14

PARIS

CONCERTS  
Salle Pleyel  
Tel: 33-1-4561 6589  
Orchestre de Paris: conducted by Alan Gilbert in works by Ravel, Dutilleul and Schumann; Jan 7  
Orchestre de Paris: conducted by Lorin Maazel in works by Weber, Debussy, Schubert and Ravel; Jan 13, 14  
EXHIBITION  
Grand Palais

Tel: 33-1-4413 1730  
Lorenzo Lotto: Rediscovered Master of the Renaissance. 50 paintings, many of them on loan from churches and museums in Italy; to Jan 11

PRAGUE

THEATRE  
National Theatre of Prague  
Tel: 420-2-2108 0131  
www.natc.cz/czno  
The Servant of Two Masters: by Carlo Goldoni. Directed by Ivan Rajmont; Jan 11

ROTTERDAM

EXHIBITION  
Kunsthal  
Tel: 31-10-440 0300  
Up to the bars bones: Human remains in museums. An estimated hundred thousand human beings find their last resting place in Dutch museums, whether in the form of mummies, skulls, skeletons, reliquaries or otherwise. This exhibition is the first to address this phenomenon directly, presenting exhibits from medical, sacral, ethnographical and archaeological collections; to Jan 10

SAN FRANCISCO

CONCERTS  
Davies Symphony Hall  
Tel: 1-415-864 6000  
www.sfsymphony.org  
New York Philharmonic: conducted by Kurt Masur in works by Beethoven and Shostakovich; Jan 10  
San Francisco Symphony

Orchestra: conducted by Michael Tilson Thomas in works by Ives, Bernstein and Prokofiev; Jan 13, 14

WASHINGTON

OPERA  
Washington Opera, Kennedy Center  
Tel: 1-202-295 2400  
www.dc-opera.org  
Die Entführung aus dem Serail: by Mozart. L.A. Opera production by Michael Hempel, conducted here by Heinz Fricke; Eisenhower Theater; Jan 7, 8, 11, 13

TV AND RADIO

WORLD SERVICE  
BBC World Service radio for Europe can be received in western Europe on medium wave 648 kHz (463m)

EUROPEAN CABLE AND SATELLITE BUSINESS TV

CNN International Monday to Friday, GMT:

06.30: *Moneyline* with Lou Dobbs  
13.30: *Business Asia*  
19.30: *World Business Today*  
22.00: *World Business Today Update*

05.07: *Business/Market Reports*: 05.07; 07.07; 08.20; 09.20; 10.20; 11.20; 11.32; 12.20; 13.20; 14.20.

At 06.20 Tanya Beckett of FTTV reports live from LIFFE as the London market opens.

COMMENT & ANALYSIS



SAMUEL BRITTAN ECONOMIC VIEWPOINT

Cracks in Wall St

The most worrying feature of the world economy is the future of a US boom stoked up by inflated share prices

The main economic query for 1999 does not concern the euro. It does not even concern the emerging economies of Japan. It concerns the US.

Indeed it is time western policymakers stopped lecturing Japan on what to do. That country accounts for about a sixth of the output of the industrial world. Its exports amount to less than 9 per cent of its gross domestic product.

Over the years, US lecturing of Japan has had a negative influence. Professor Ronald McKinnon has argued that "American mercantile pressure on Japan from 1971 to 1985 to yet the yen up, and fear that that pressure may return, is the root cause of Japan's current deflation and slump."

Whether or not it is "the root cause", the appreciation of the yen from ¥300 to ¥100 in 1986, partly under US prodding, did indeed make an important contribution to Japan's current malaise. Prof McKinnon is, in any case, right to argue that the dollar exchange rate cannot be used as an "instrumental variable" for reducing the US current account deficit "which mainly reflects extremely low saving in the US itself".

It would, in fact, be unfortunate if US savings behaviour were abruptly corrected. For what happens in the US is make-or-break for the world economy this year and next. The US economy is twice the size of Japan's. Like Japan, it is a continental economy. But the US has a much greater effect on the rest of the world. Wall Street's ups and downs, for instance, usually trigger large synoptic movements in other stock exchanges.

The US boom has been fed by a record rundown in the financial balance of the private sector. The deterioration has been in the entire private sector and not just in personal finances. The rundown has been sustained, up to now, by portfolio appreciation due to the rising level of stock prices. As Andrew Smithers has pointed out, "the large buyers of equities, who have been keeping the market up, have been US corporations buying their own stock or engaged in takeover operations."

The US Federal Reserve now faces a classic dilemma. Should it tighten policy to let the air out of the Wall Street boom or should it loosen policy for fear that alarms about emerging markets and falling domestic confidence might already be sowing the seeds of recession?

Most forecasting organisations expect US growth to slow from about 3 1/2 per cent in 1998 to 1 1/2 per cent in 1999. This is something with which the world can live. It would, indeed, be a healthy reaction to excessively rapid growth in the past. It is the fear that Wall Street prices are much too high, and could therefore snap, that produces the risk that the US could experience a serious downturn rather than a benign slowdown.

The Organisation for Economic Co-operation and Development has studied many different estimates of the effects of Wall Street on the level of spending in the US. The remarkable consensus is that a 20 per cent fall in US equities could lead to a drop in consumption of about 0.7 per cent, accompanied by a larger proportionate impact on investment. So even without secondary or confidence effects, real GDP would be about 1 per cent lower than might otherwise be expected. If equities were to fall by 40 per cent, the US economy would almost certainly tip over into a serious recession.

US equity prices are now much higher than in December 1996, when Alan Greenspan, chairman of the Fed, made his famous remark about "irrational exuberance". As always, there are two sides to the argument. The most sober case of the optimists has been presented by Goldman Sachs. Its economists avoid the trap of talking about the "new paradigm" which is supposed to give the US rapid, inflation-free growth forever. Instead, they put the emphasis on the new world of low or negligible inflation. This should reduce the nominal interest rate at which future dividends are discounted. They also believe that the level of risk will be lower in an environment of stable prices, thus justifying a lower risk premium.

Nevertheless, the IMF, in its December Interim Assessment, did take into account lower interest rates when it asked what level of nominal equity earnings growth would justify recent equity price levels. Its estimate is 7 1/2 per cent a year. This is not very different from the average of the last four decades when inflation averaged more than 4 per cent. But it is scarcely credible that profits could grow at the required rate if inflation remains at its current level of just over 1 per cent.

The most pessimistic case comes from Tim Congdon in the December Lombard Street Research Economic Review. He reminds us that measures of broad money and credit, so far from indicating any kind of crunch, have shown near double digit growth in the last few months. In his view this has been associated with large, although suppressed, overheating of the US economy. The overheating has not shown up in inflation partly because of the fall in commodity and oil prices, but also because much of the excess demand has gone into imports. On present trends, he projects that the US would have net overseas liabilities equal to 50 per cent of GDP by 2010.

My own guess is that those who worry about Wall Street are near the truth; and I would expect a severe enough correction in US equities to have a spillover

impact not only on the US but also on the world economy. But, unlike Mr Congdon, I would not put so much emphasis on the US balance of payments. Not only does such an emphasis play into the hands of protectionists, it overlooks the numerous ways in which the balance of payments takes care of itself in a world of floating exchange rates and free capital movements.

It was this balance of payments obsession and the structure of self-correcting forces that explains, but does not excuse, the willingness of otherwise moderate and sensible British officials to draft the hideous idiom of Operation Brava, a fallback plan which would have imposed an almost Stalinist siege economy in Britain in the event of severe problems with sterling in 1968-69. This was a horror which the British establishment successfully concealed from us until the opening, at the end of last year, of the official papers for 1968 under the 30-year rule.

For the time being the US is acting as a world buyer of last resort; and it is quite rational for residents of countries with surplus savings, such as Japan, to lend to it. Obviously the US external debt ratio cannot rise indefinitely. A soaring US current account deficit will eventually hit the dollar. And if the dollar fell too quickly, even in an economy where trade accounts for only around one tenth of GDP, it would eventually affect the inflation outlook and cause monetary policy to be tighter than it would otherwise be.

The Fed's best course - which is easier for Greenspan's born-again critics to recommend than to prescribe in detail - is to try to keep US nominal demand rising at a non-inflationary rate and not to fall back into the mercantilist trap of becoming obsessed with overseas trade returns.

Exchange Rate Co-ordination for Surmounting the East Asian Currency Crises, Economics Department Stanford

Plunging Up Debt, Smithers and Co.

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LETTERS TO THE EDITOR

Directors' attitude to euro smacks of an organisation in denial

From Dr Anne-Carole Chamier, Chemist

Sir, As a scientist who always thought that commerce and industry depended on enterprise and informed risk-taking, I was astonished to read in your letters' column that the director-general of the Institute of Directors thinks that business is about maintaining the status quo and closing your mind and options ("Directors remain firmly opposed to the UK joining the euro", January 4).

The position set out in this letter looks frighteningly like funk and denial by organisations under serious threat which are unable to

cope with the realities. The scientific attitude that has transformed everyday and intellectual life for the past two centuries, is that an open-ended, open-minded approach to problems, challenges and ideas is the most fruitful. Only the weak pretend that they know all the answers by denying the challenges of the new.

If a majority of leaders of business can in all seriousness sign up to the position set out by Tim Melville-Ross, I shall be converting all my capital into euros and setting off for the continent.

Anne-Carole Chamier, Achanmuir House

From Mr Ian Walsh

Sir, Tim Melville-Ross gives the impression that the Institute of Directors' policy against the UK joining the euro represents the views of 47,000 directors in the country.

As a member, may I point out that my company disagrees with IoD policy.

Ian Walsh, managing director, Ian Walsh Consulting (UK) Chatsworth Court, Eastbourne, BN20 7JF, UK

Do not break trade pledges

From Mr Ben Jackson

Sir, It would be interesting to see how Tony Blair approaches the subject of the EU-South Africa trade talks when he meets President Mandela this week ("Blair to press EU on South African trade", January 5).

South Africa has already agreed to stop calling its port, port and its sherry, sherry in the European market, and also to phase the terms out in third markets. European insistence that the terms should also be dropped in southern Africa shows that South African commentators are right to say that the end-game of these talks is being dominated by a "grubby scramble" for monopoly rights in South Africa.

Mr Blair should work with his colleagues in Europe to make sure no more promises to South Africa are broken.

Ben Jackson, director, Action for Southern Africa, 28 Penton Street, London N1 9SA

Japanese support for equity market a mistake

From Mr Ken Takasu

Sir, The Japanese government will be making a grave mistake if it follows policy recommendations to prop up the Japanese equity market ("Business chiefs urge Japan to buy up to 10 per cent of stock market", December 9).

It is even more sadening that influential Japanese business leaders should suggest it.

My opposition does not centre on the Ministry of Finance and Bank of Japan's fears that it could put more pressure on the government bond market. Rather, what Japan needs is more unwinding of cross-shareholdings which may or may not lead to lower equity prices.

What is essential to the revitalisation of the Japanese economy is a jolt of shareholder capitalism.

What is missing in the policy recommendations to support stock prices is the realisation that equity means ownership. Widespread cross-shareholding only emerged in Japan in the

1950s and should not be viewed as a necessary feature for stability and success.

Instead, in the present global economic environment, it may prevent the corporate flexibility and entrepreneurial spirit that drives innovation.

I suspect that the policy recommendation is driven by the fear that still lower equity prices will lead to further credit tightening by Japanese banks. Stock prices will fall if they are too expensive.

Japan does not lack the private savings that could be moved into stocks and demographic trends favour holding long-term assets.

What the Japanese public in general must learn is that the stock market is not a large gambling casino but a way for individuals to partner with successful businesses.

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Mobile and going places

Alan Cane looks at the future of telecommunications following the proposed merger of two leading cellular companies

The proposed merger between Vodafone of the UK and AirTouch of the US, a union which would produce a cellular giant with global reach, technical capability and a market capitalisation of \$110bn, is the clearest sign yet that the future of telecommunications is wireless.

"VodaTouch", if it were to come about, would be one of the largest telecoms groups in the world. Not only would its market capitalisation put it on a par with the largest fixed line international operators, such as AT&T, Deutsche Telekom and British Telecommunications, but its geographic spread of assets around the world should result in significantly lower call charges for its customers - corporate and residential.

Steve Jobber, telecoms analyst with Paribas in London, points out: "I believe a Vodafone and AirTouch group would be able to leverage greater economies of scale than its competitors, especially within the corporate market."

"Many of these potential synergies can only be achieved through increasing network ownership in Europe and joint ownership of networks either side of the Atlantic."

But while some economies of scale are certainly deliverable, many observers see the value of the potential merger as conceptual rather than financial.

The emergence of VodaTouch would confirm for many that wireless will largely replace fixed lines for voice calls and an increasing proportion of other kinds of communications within the decade. Fixed-wire telephony will increasingly be reserved for multimedia - combinations of high fidelity sound, moving video images and data - which require higher capacity transmission channels than can conveniently be provided over the airwaves.

Mike Grant, mobile specialist with Analysts, the Cambridge-based telecoms consultancy, argues: "For personal communications, the mobile phone is going to become dominant over the next five to 10 years because it is convenient and easy to

use. It becomes part of you, like your wallet, and makes a statement about your lifestyle. Vodafone, for example, is chosen by companies that like its professional business image. Wireline will continue to be used both in the office and the home for applications which need more bandwidth than the radio spectrum can easily provide."

That mobile has not replaced fixed wire to a greater extent already is a consequence of pricing, which is still significantly above conventional voice services, and service quality, which can be abysmal.

There are also regional factors at play. Although there is explosive growth in cellular subscriptions in most of the world, there are huge differences between the US, Europe and Asia.

Development of the US market has been hampered by an adherence to the older, analogue form of transmission which is more expensive, less efficient and of poorer quality than modern digital technologies, such as GSM, the European and de facto world standard. It is also held back by the bizarre convention that the cost of a call to a mobile phone falls on the caller, which discourages subscribers from leaving their phones on.

The US government's decision in 1994 to auction wireless spectrum to new entrants is having its effect, however. After a period of

turbulence, groups such as Omnipoint are settling down, installing new digital technologies, such as GSM and CDMA, and pulling down prices. Scott Arnold of the McKinsey consultancy noted recently: "Our analysis suggests that net earnings for some companies could shrink to between 25 per cent and 30 per cent of revenue over the next three to four years."

Europe's success in the mobile arena has been the consequence of a far-sighted Brussels decision to insist on GSM as a standard across the continent. It has enabled subscribers to move from country to country carrying their phones with them and given the region's key handset manufacturers - Nokia, Ericsson, Siemens and Alcatel - substantial economies of scale.

According to estimates from the London-based consultancy Ovum, western Europe will grow from 82m connections at the end of 1998 to 183m by the end of 2002. The US will grow from 73m connections at the end of 1998 to 181m by the end of 2002, while the Asia-Pacific region, with 73m connections at the end of 1998, will grow to 128m.

Some parts of Asia and other developing regions have the greatest potential for mobile growth. These countries are moving directly to mobile systems because of their easy availability and low cost of installation. They are skipping 100

years of traditional fixed line installations.

The key to the mobile future, however, is the emergence of third-generation systems. This is the principal justification for the formation of VodaTouch and the other large mobile companies that will undoubtedly emerge through consolidation. "Third generation systems will be the catalyst for the advent of the wireless future," says James McCafferty of SG Global Equities.

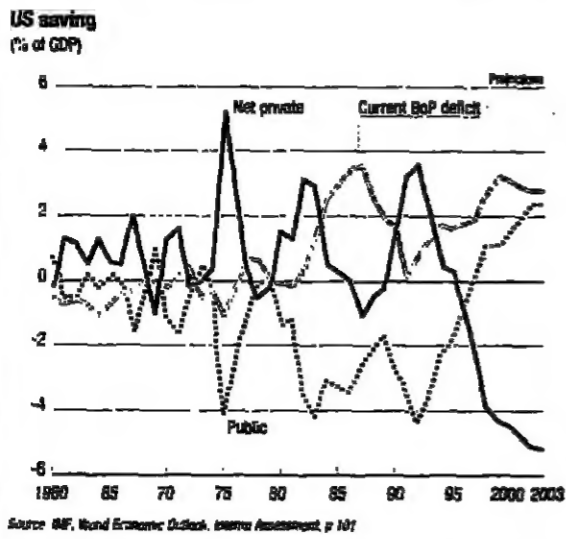
Third generation systems, known as UMTS in Europe, have been described as offering multimedia services to people on the move. Much of this, however, can already be offered over GSM. Their real importance is the possibility of establishing a world mobile standard that will enable global "roaming" (crossing country boundaries) using a single phone.

Operators able to offer the most attractive roaming terms would be able to attract the lion's share of the lucrative corporate market. By analogy, operators such as AT&T, British Telecom, Deutsche Telekom and France Telecom are spending billions to establish global fixed networks to attract the multinational business dollar.

Vodafone and Airtouch, with activities throughout the US and Europe and substantial Asian assets, would be well placed to challenge for such business.

The question remains whether the "wireless future" would be better served by "pure play" mobile operators, such as Vodafone, AirTouch and Orange, or by "converged" operators which include both fixed and wireless services in their portfolio. AT&T, for example, can offer both services through its ownership of the former McCaw Cellular.

Some analysts believe greater shareholder value is to be found in pure play stocks. The model may be the Swedish mobile operator Europolitan in which Vodafone and Airtouch both have stakes. With a range of services including a "wireless office" for corporate customers, Mr Jobber of Paribas, for one, believes it is at least a year ahead of the game.



Source: IMF, World Economic Outlook, Interim Assessment, p 101

Financial Times Conferences EAST AFRICA From Co-operation to Community Developing an Agenda for the 21st Century 27 January 1999 - London. A treaty establishing an East African Community, providing for a Common Market for Kenya, Tanzania and Uganda, is due to be ratified by the three heads of state by the middle of 1999. Senior ministers from the three East African countries and speakers from the international business community will examine recent progress in the East African Co-operation process and discuss the implications of the treaty on investment and growth in the region.

Mobile and going places Alan Cane looks at the future of telecommunications following the proposed merger of two leading cellular companies. The proposed merger between Vodafone of the UK and AirTouch of the US, a union which would produce a cellular giant with global reach, technical capability and a market capitalisation of \$110bn, is the clearest sign yet that the future of telecommunications is wireless.

Whistle-blowing Blair and Mbeki

Handwritten note in Arabic script: 150 من الاموال

FINANCIAL TIMES

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Thursday January 7 1999

Japan's folly

The complacent attitude of the Japanese authorities to the soaring yen is incomprehensible. It is not just in Japan's interest to reverse the rise, it is in its power. Yet Eisuke Sakakibara, Japan's vice-minister for international affairs, seems to view the appreciation as inevitable and perhaps desirable. If so, he is in grave error.

When the yen touched 147 to the dollar last August, reasonable people could regard the slide as dangerous. Further yen collapses might have triggered devaluation of the Chinese renminbi and another bout of currency instability in Asia. In addition, the capital ratios of Japanese banks were being lowered, since the yen's weakness reduced the value of their yen-denominated capital in relation to foreign-currency assets.

This concern about yen weakness - though not necessarily justified, given the dire state of the Japanese economy - was at least defensible. What has happened since then is not. The yen reversed direction after August and has, by now, appreciated 32 per cent against the dollar. This may help Japan's neighbours. But it will aggravate its own problems.

In the year to November, wholesale prices fell 3.8 per cent. The yen appreciation will strengthen the downward pressure. This will, in turn, raise real interest rates and deepen the Keynesian liquidity trap. It

will also undermine the profitability of Japan's internationally exposed businesses, worsen export performance and weaken the incentive to invest. In an economy that shrank by about 3 per cent last year, further sharp contraction looks certain.

No responsible policymaker should tolerate this, particularly when it is possible to halt the trend. Indeed, the benefit of the strong yen is that it makes it still easier to take the expansionary action Japan desperately needs. Broad money grew by only 4.5 per cent in the year to November, largely because of the fragility of Japan's banks. But the Bank of Japan can fill the gap by buying dollars and government bonds. Yet it seems to be doing little of either. Instead, it has, incomprehensibly, allowed the yen to soar and the price of Japanese government bonds to collapse.

Ketzo Obuchi, the Japanese prime minister, is visiting Europe this week, partly to promote the role of the yen in a three-cornered international monetary system which now includes the euro. What Mr Obuchi should be told is that the yen will play a major role only if the Japanese economy itself improves. That will not happen if the currency is expected to appreciate in this way, indefinitely. Japan needs to set a ceiling for the yen. This is not just desirable, but feasible. It should be done now.

Whistle-blowing

The European Commission in Brussels, the executive arm of the European Union, is not a massive bureaucracy in comparison with those in EU member states. Nor is it massively corrupt. But it is inefficient in ensuring that its budget is well spent, not least because it is being asked to perform many more jobs than it was set up to do. The Commission is overstretched and understaffed. And it is hopelessly incompetent in defending itself against those charges of inefficiency and occasional corruption that inevitably arise.

Witness its current confrontation with the European parliament, which next week will hold a vote of censure aimed at Jacques Santer, the Commission president, and his fellow commissioners. This is blowing the affair up out of all proportion, but the Commission nonetheless has a case to answer and has aggravated matters by its inept mis-handling of its defence.

Allegations of cronyism and corruption in the Commission have been under investigation for months in the parliament. Too often charges of impropriety have been treated as an assault on the integrity of the entire Brussels bureaucracy, rather than as a justified attempt to overcome the notorious difficulties of ensuring good governance in a multinational body. Mr San-

ter failed to persuade the parliamentarians of the real progress made in curbing fraud and sacking corrupt officials. He insisted on keeping investigations under his control. He appeared to resent the demands for transparency.

The last straw was the secret suspension last month of a junior Commission official, Paul van Buitenen. He was a classic whistle-blower who had leaked documents to the parliament supporting the allegations of fraud and mismanagement.

If anything will persuade the parliamentarians to vote for censure - which requires a two-thirds majority - this is. Like all whistle-blowers, Mr van Buitenen has broken the rules to expose a parcelled injustice. He may be a fanatic, but he has also exposed some wrong-doing. The Commission will be blamed for picking on a small man while the powerful commissioners stubbornly refuse to admit their own failings.

The parliament is not entirely pure in this affair. With elections ahead, its members are keen to gain any publicity they can. They have failed to curb excesses in their own system of claiming expenses. But, even so, they are justified in seeking to call the Commission to account. That is their democratic role. Now it is up to the Commission to demonstrate that it can, and will, put its house in order.

Blair and Mbeki

South Africa is the right country for Tony Blair's first trip to Africa as British prime minister. The visit also comes at an appropriate time. While Mr Blair will salute the remarkable achievements of Nelson Mandela, his visit also provides the opportunity to forge a partnership with Thabo Mbeki, the president's chosen successor. Their objectives should extend beyond South Africa.

Although Africa has been low on the UK's agenda, there are good reasons why it should be higher. These range from the renewal of civil war in Angola and the Congo to Nigeria's planned return to democracy. Both as a permanent member of the UN security council and because of its commercial interests Britain has a critical role.

The first step must be to consolidate ties with the region's superpower. This can readily be achieved. South Africa is seeking continued British support in its efforts to secure better access to the European Union market, and the world can give South Africa and other developing countries is to buy their products.

For his part, Mr Blair will be pressing the case of the British companies tendering for arms contracts valued at £1bn. If South Africa is to play a peacekeeping role in Africa, it needs well equipped armed forces. But this

should not be top of the bilateral agenda. The two countries have far more to offer each other.

South Africa's transition from apartheid to democracy remains one of the century's most remarkable events, but fundamental challenges remain. Crime is rife, corruption is rising, unemployment is growing. Aids is rampant. Job creation is critical, and, unless South Africa can attract more foreign investment, the economy will remain stagnant.

And, like old Labour, the ruling African National Congress needs modernising. Mr Blair's experience in remoulding the Labour party is relevant to Mr Mbeki. It is anachronistic that the ANC will be contesting the forthcoming elections still in an electoral alliance with the South African Communist Party and the Congress of South African Trade Unions.

The other vital item on the agenda, however, is the need to address the wider issues affecting the continent. Including the reduction of its crippling external debt burden and to strengthen Africa's peace-keeping capacities.

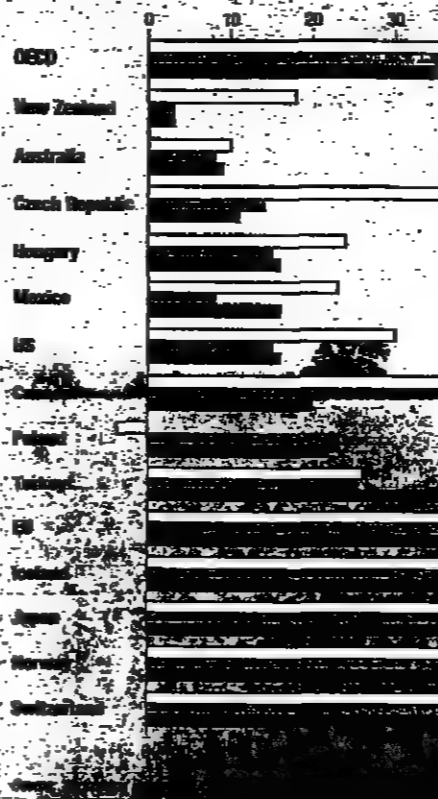
If Mr Mbeki and Mr Blair can strike a rapport and find common ground, the visit could mark the start of a new chapter in Britain's relations with South Africa, and prepare the way for a fresh initiative to tackle the problems of the continent still in crisis.

Down on the farm

The worldwide depression in agriculture could threaten moves to liberalise international trade, say Michael Smith and Nikki Tait

Farming subsidies

Producer subsidies as a % of value of farm production



In Thailand, agriculture officials are warning that fights over water rights may break out among rice farmers as they raise output to compensate for low prices. In central China, grain farmers complain that wheat prices are so low they might as well be selling chaff. On the other side of the world, UK farmers are selling sheep for next to nothing. And in the US, some agricultural prices are so depressed that the administration threw a \$6bn lifeline to farmers late last year.

Three or four years ago, farm prices were riding high. With Asia booming and an increasingly affluent China demanding more and more meat, it seemed that the world could never grow enough food. But just as farmers were expanding output to feed Asia's growing appetite, the calamitous financial crisis hit emerging markets. Demand collapsed, resulting in heavy price cuts for products ranging from meat to cereals and sugar.

Some farmers have managed to escape relatively unscathed. Thanks to a favourable exchange rate and strong marketing, Australian wheat producers are enjoying stronger prices than two years ago. Oilseed and cotton prices also remain robust. Even in the US there are pockets of prosperity. US butter prices, at one stage last year, were twice as high as in 1997. Milk prices in the EU have also been resilient, largely because of a highly regulated market.

But there is no doubt that, as a whole, the downturn in the current farming cycle has been particularly acute.

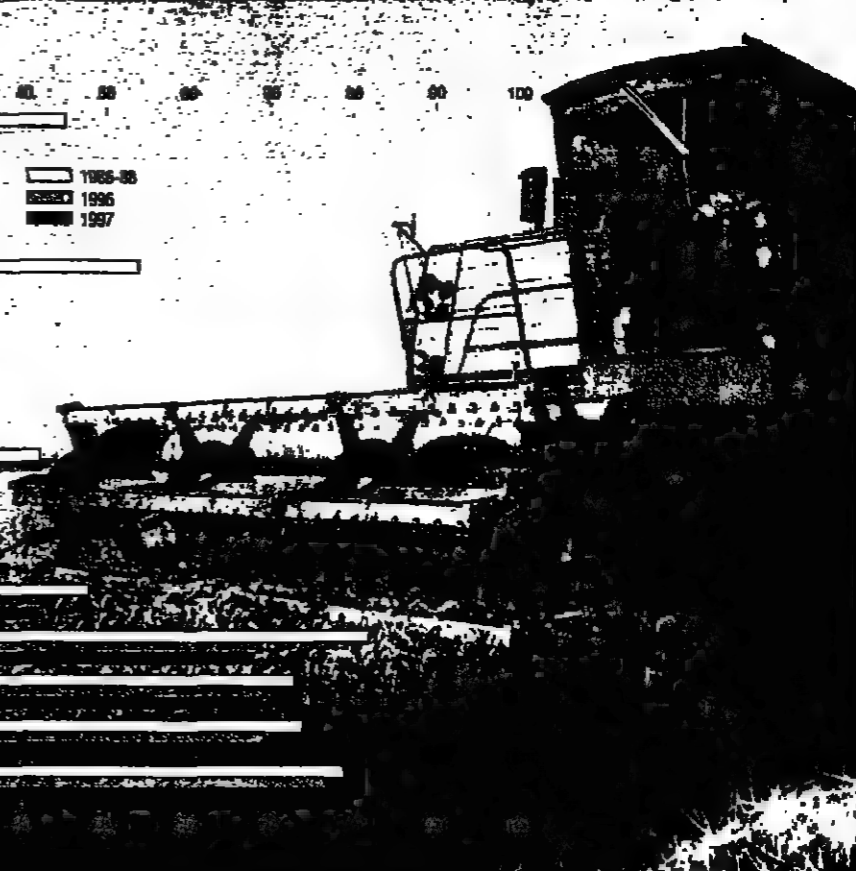
Benchmark wheat futures in the US in September fell to about half the level of 18 months earlier, while in London white sugar prices are around two-thirds of their mid-1997 levels. Live hogs in the US are trading for less than a third of their value in 1997 and beef prices remain depressed worldwide as a result of scares over mad cow disease and E-coli, and healthier eating trends.

Thailand, the world's largest rice exporter, estimates farm income will fall 16 per cent in the coming agricultural year. The US, in September, predicted a similar fall for its farmers in 1998.

In the UK, farm incomes are at their lowest level since the 1930s because of poor weather and the strong pound. Danish farmers say their incomes in 1998 fell by half, with the pig sector's profits reduced to nil. Even China's highly-protected farmers are feeling the pinch following bumper harvests. Beijing has indicated that rural incomes will have missed the government's target of a 5 per cent increase for 1998, widening the gap with urban incomes. "Without prosperity for farmers there will be no prosperity for the Chinese," the Communist party said recently.

The impact of the current slump in world farm prices could be felt way beyond agricultural communities.

The present downturn follows a period of trade liberalisation arising from the Uruguay round of talks that ended in 1993. Free marketeers fear that if prices remain depressed over a protracted period, governments will be less than enthusiastic about embarking on a new round of negotiations on world farm trade. Supporters of deregulation argue that cutting expensive subsidy regimes would stabilise



prices, to the benefit of farmers, consumers and taxpayers alike. But they concede that the momentum for further liberalisation may have been lost.

"It is always easier to push through reforms when farmers do not have their backs to the wall," says Professor Allan Buckwell of London University's Wye College, a free-trade proponent. "It will be harder for the US and the European Union to make the case for change."

How bad, then, are the difficulties and how long can they be expected to last?

If farmers are to be taken at their word, things have never been worse. But then, they have always been highly effective lobbyists. Farmers are notorious for exaggerating their woes to win politicians' sympathy and taxpayers' money.

It is also true that farmers have themselves to blame for some of the problems. In Europe, pig breeders were tempted by high prices to step up production in 1996 and 1997 even though they were warned by the European Commission, among others, that the bonanza would not last.

Guy Legras, the Commission's farming director general, says much of the price downturn was predictable. "It is the cycle and it is absolutely normal," he says. He believes EU countries were right to reject recent calls from some pig farmers for an intervention system to guarantee prices.

"People have to be more responsible," he says.

But while farmers should have expected some price falls, they could not have forecast the severity of the Asian and Russian financial crises.

The Organisation for Economic Co-operation and Development estimates half of the world price declines are due to normal supply and demand fluctuations, while 35 to 40 per cent can be blamed on the Asian and Russian crises. Demand from Russia, which normally takes a third of the EU's meat exports, has slowed to a trickle. The severity of Asia's problems, meanwhile, is reflected in the 90 per cent drop in wheat imports last year, according to International Grain Council figures.

Governments have responded in traditional fashion, either with more aid for farmers or with more market intervention. China is tightening its state purchasing system. According to a recent report by one US official: "China's grain reforms are aimed at strengthening state control over the national grain system, rather than making it more market-sensitive. The reforms do little to solve the country's fundamental agricultural problems, such as chronic over-production and a terribly inefficient distribution system."

Other countries have preferred financial solutions. Thailand last month announced an \$85m

subsidy package for sugar cane producers. In November, the UK provided farmers with a £120m aid package, while France is negotiating aid for pig farmers. The EU has also increased export subsidies throughout the 15-nation bloc.

The country with the deepest pockets has been the US. In a congressional election year, farmers last summer secured early release of about \$6.5bn of "transitional payments" under the 1986 freedom-to-farm act that liberalised the country's farming regime. And, in October, Congress and President Bill Clinton agreed a \$6bn package of direct payments and disaster relief for farmers.

Richard Rominger, agriculture department deputy secretary, makes no apologies. "Every government has the sovereign right to help its farmers, but in the way that is least disruptive to trade," he says. The US has been "scrupulous" about staying within World Trade Organisation obligations, he adds. Payments were not linked to production, prices or planting decisions, which the WTO believes distorts trade.

In Brussels, Mr Legras offers praise for the US aid scheme, which avoids building stocks. But he was staggered by the size of the aid package which he believes is out of all proportion to the problems being tackled. "It is crazy; we were expecting a pack-

age of about \$500m. After what they have done, they cannot pretend they are free market. It strengthens our hand in [future free trade] negotiations," he says.

The EU will this year provide a record €40bn (£28.4bn) for the farm sector. But it also has problems, including the question of how to move its highly protective farm subsidies system closer to market prices. The Commission is trying to win the backing of member states for cuts of up to 30 per cent in the guaranteed prices for milk, beef and cereals. But the proposal was making much headway, even before farm prices began to fall.

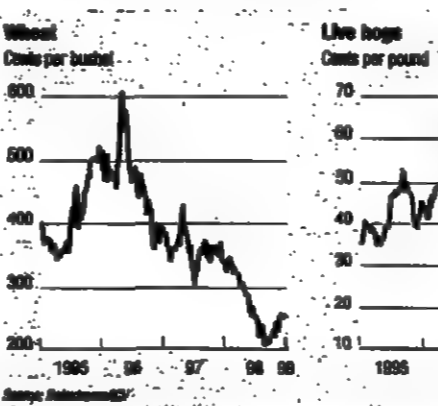
Meanwhile the Cairns Group of agricultural free traders, which includes Australia, New Zealand, Thailand and Brazil, is fretting about how far the US and EU will be prepared to go in a new round of farm liberalisation talks, due to start next year.

In a recent statement, the Cairns Group expressed concern at the prospect of a growing use of "tit-for-tat" export subsidies by the US and EU. It said such aid distorted trade. The group called for the abolition of farm export subsidies in the next free trade round.

Loek Boonekamp, head of agricultural trade and markets at the OECD, is also concerned about an increase in export subsidies. He says the experience of the past year should reinforce enthusiasm for liberalising trade. "Had there been no restrictions on subsidies, we would have seen lower prices. Free market markets react better to changes in supply and demand and produce more stable prices," he argues.

But many farmers remain unconvinced by the free trade argument. If prices remain depressed, the voices of the OECD and other free traders could well be drowned by the protectionist clamour.

Additional reporting by Paul Sobran, James Harding, Ted Bardacke, Stephen Wyatt and John Barham



OBSERVER

Divided by a common currency

Russians are no strangers to currency crises. But the launch of the euro on the world's foreign exchange markets has raised a tricky and sensitive issue: no-one can decide what gender the new medium of exchange should be assigned in the language of Dostoyevsky and Pushkin.

Anyone who's ever tried to get their tongue round the Cyrillic alphabet will know that Russians take these things seriously. Despite the fact that the "yevro" looks like a neuter word - because it ends in an "o" - language experts in Moscow argue that it definitely can't be. They would prefer to follow the French ("un euro") and Germans ("der euro") by adopting a masculine gender - an apt choice given the predominantly male composition of the European Central Bank's council.

Expert opinion in London remains divided. The Russian embassy reckons that the euro is "100 per cent feminine", while the Russia branch of the BBC's famously erudite World Service believes that it can be either neuter or masculine. Perhaps they should toss a coin?

Pie in the eye

Gerrit Zalm won't be the last international heavyweight to get an eyeful. The Dutch finance minister on Monday collected two well-aimed launched tarts as he solemnly launched the euro on national television. The following day a Belgian court imposed a hardy discomfit €75

Hard lesson

Forget reading, writing and arithmetic. The young citizens of the Russian Far East are getting classroom lessons in how to pay their future taxes.

All for nought

Hold on to your seats. Those sticklers for detail at British Bank Abbey National feel duty-bound to announce that director Tim Ingram and his wife Christine have bought one share each in the company. That, they inform us, amounts in aggregate to 0.000000141 per cent of the ordinary share capital. Approximately.

Financial Times

100 years ago

**Pluralist Directors**  
A brief calculation culled from the Red Book of Directors shows that 640 gentlemen in Britain hold 5,000 directorships between them. Whether the directorships are improved by the process or whether the process improves the gentleman is a matter of some doubt. But we may say without any doubt that it is a typical development of the fin de siècle industrial circus to drive a team of half a dozen or more directorships. The Red Book informs us that four gentlemen each hold at least 20 directorships.

50 years ago

**Canada's Position Improves**  
Edmonton, Jan 6. Canada's gold and U.S. dollar reserves have been doubled since the end of 1947 when dollar-saving measures were introduced. They now total approximately \$1,000m, Mr. Abbott, Minister of Finance, announced here. Current reserves consist of U.S. \$550m and the balance in gold. The Minister revealed that at December 31 holdings were officially \$898m compared with a low of \$461m in December 1947.



# FINANCIAL TIMES

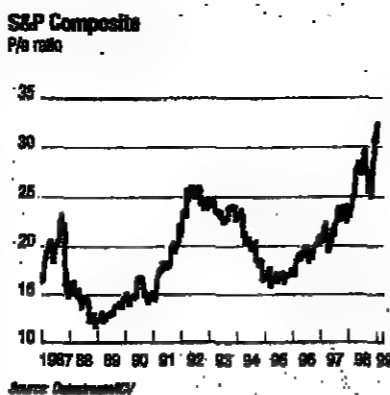
THURSDAY JANUARY 7 1999

BUILDING HOMES OF INDIVIDUALITY FROM SCOTLAND TO THE SOUTH COAST

## THE LEX COLUMN

### Drunk on liquidity

Happy January! The US stock market is back in record territory, with the Dow Jones index surpassing 9,500 for the first time. The UK, French and other European markets are also closing in on their all-time highs. Even Japan had a good day. As usual at this time of year, equity markets are surging along on a wave of liquidity. Stocks are benefiting both from the traditional seasonal inflow of fresh money and a reduction in institutional cash piles that were built up during last autumn's downturn. In the US, for example, cash holdings of equity mutual funds have dropped from September's 6.3 per cent high to around 5 per cent, compared with a two-year average of 4.45 per cent.



But every bubble bursts eventually. Valuations are now so stretched - the trailing price-earnings ratio on the S&P 500 index has reached 38 times - that even bulls find them hard to justify. Tellingly, the S&P 500 has already exceeded the 1998 year-end forecasts of many US strategists. Earnings growth across most western markets is likely to be lacklustre as deflationary forces spread across the world economy. And the scope for further interest rate cuts in the US and continental Europe is limited, reducing the support furnished by lower bond yields.

Predicting the timing of any setback is difficult. But as the extra push from liquidity peters out and investors refocus on fundamentals, it is hard to see this New Year rally lasting much longer.

**Yen**  
Japanese exporters must be feeling less than charitable towards Eisuke Sakakibara, Japan's vice minister for international affairs, whose latest comments have done nothing to damp the yen's surge against the dollar. Their anger would be misdirected. The currency's strength seems to owe more to the collapse of the bond market than the opinions of "Mr Yen".

The oversupply in the Japanese government bond (JGB) market - to fund the government's fiscal stimulus package - has caused yields to triple to nearly 2 per cent, attracting funds from overseas. The finance ministry's decision to curtail its buying of JGBs has only exacerbated this. But the only speedy remedy - getting the Bank of Japan to monetise the govern-

ment debt by in effect printing money to buy bonds - carries huge dangers and would be politically difficult.

Meanwhile, two further pressures conspire to sustain the yen: the unwinding of so-called short yen carry trades, where investors borrowed in yen to buy overseas assets, and the need for Japanese exporters to hedge further against currency appreciation, thereby reducing capital outflows. Furthermore, dollar weakness, the flip side of the yen coin, does not look likely to change in the short term, given growing concern about the US trade deficit. Longer term, the poor fundamentals of the Japanese economy should weaken the yen, but not before Japanese exporters join the rest of Japan in hurting.

an appeal that is widening beyond the family segment thanks to sportier models, competition to buy it should be fierce. Fiat is the most obvious fit, both geographically and in terms of products. However, structuring the deal as a merger of equals may prove difficult unless all of Volvo were to be included. Volvo as a whole is capitalised at \$12bn, compared with Fiat's \$14.5bn, but the car division accounts for little more than 50 per cent of forecast 1999 operating profits. Putting that segment on a multiple of nine suggests a value of around \$6bn. But it would be a shame for Fiat not to strengthen its own Iveco trucks business at the same time. A full-scale merger looks the best bet.

#### Gucci/LVMH

Investors in Gucci are all too aware that the stock can go in and out of fashion. Its share price has oscillated between €30 (€36) and nearly €70 over the past couple of years. But with first Prada and now LVMH taking stakes, it seems that what the Asian crisis has taken away bid speculation is giving back. Of course, LVMH may just sit on the 5 per cent stake, enjoying access to information about a fellow purveyor of luxury goods, and eventually profiting - as will the whole LVMH group - from a recovery in Asian consumer spending. The yen's recent strength has reassured investors that there is light at the end of that tunnel.

But what about a bid for Gucci? LVMH could afford it, unlike Prada. Its 11 per cent stake in Diageo is worth more than Gucci's current market value of €3.3bn. But deep pockets are not enough. A fashion house's talents notoriously lie with individual egos. Either these are won over or they walk, taking the company's value with them.

Apart from money, LVMH could offer Gucci's glittered an important role in expanding the group's fashion interests. After a sometimes painful experience as a public company, they might welcome more committed ownership.

But LVMH, which is still trying to turn round its last big acquisition, the DFS duty free chain, would have to beware of offering too big a premium. After all, synergies are hard to come by in brands that thrive on their distinctiveness.

## Senators clash over format for impeachment hearing

Republicans seek to block plans for accelerated trial

By Mark Szerman in Washington

Right-wing Republican senators yesterday sought to block plans for an accelerated impeachment trial for President Bill Clinton.

As the new Congress formally opened, US senators remained locked in debate over how to structure the trial, with Republicans and Democrats holding separate meetings to try to map out plans for the historic proceedings.

The trial is due to get under way today when William Rehnquist, chief justice of the supreme court, formally swears in the senators as jurors.

Trent Lott, Republican senate majority leader, said he was optimistic that agreement on a structure would be reached before the trial opened. However, he warned that the trial could last anywhere from three days to more than three weeks.

"I can't give you a magic date," he said. "All kinds of variables are coming into play."

Joe Lockhart, the White

House spokesman, expressed frustration with the continued delays and said Mr Clinton was "anxious" to get the issue resolved quickly.

The president's lawyers are preparing a wide-ranging attack on the charges that Mr Clinton obstructed justice and committed perjury in covering up his affair with Monica Lewinsky, a White House worker, but their tactics will depend on the format of the trial.

Mr Lott's comments came as the mood appeared to be turning against a bipartisan plan to hold a shortened trial lasting a few days.

The "mini-trial" would test whether there was any chance of achieving the two-thirds majority in the Senate necessary to convict Mr Clinton. Although the plan is strongly backed by Democrats, a growing number of Republicans have said it would be a violation of their constitutional responsibility if they did not hold full proceedings.

Most Republicans appear to favour an alternative plan for a trial that would last several weeks and

involve some witnesses. Arlen Specter, a Pennsylvania senator, said: "I believe we can have a very narrowly focused proceeding, limiting the number of issues, limiting the number of witnesses and conclude it within the parameter of three weeks."

Tom Daschle, senate minority leader, said he remained optimistic that the two parties would reach consensus on a "reasonable" plan to proceed. However, he warned that if the Republican majority approved a format involving witnesses, the White House should be given as long as it wanted to mount its defence. That could drag out proceedings for months.

But to the first sign that Democrats might not be completely united behind Mr Clinton, Robert Byrd, a prominent senator from West Virginia, said he had not yet made up his mind about the case.

"I could go either way based on the evidence as I've seen or heard it," he said in a television interview.

Republican nerves, Page 5

## Former army chief joins race to be Israeli prime minister

By Avi Shalom in Tel Aviv

Amnon Lipkin-Shahak, Israel's former army chief of staff, yesterday launched his campaign for the premiership with an attack on Benjamin Netanyahu, the prime minister, and an appeal for unity in Israeli society.

"Netanyahu is dangerous for Israel. Netanyahu must go," said Mr Shahak, who is expected to be a strong candidate in elections due on May 17.

Coalition and opposition leaders branded Mr Shahak, who is forming a centrist party, a political novice with no vision on regional peace or security. Mr Netanyahu, of the Likud party, described Mr Shahak's comments as a "crude personal attack" bordering on incitement.

"He is a wonderful man, but has nothing new to say about anything," Yossi Beilin, a senior deputy in the opposition Labour party, said of Mr Shahak. Labour supporters are wor-

ried his candidacy could split the opposition to Mr Netanyahu.

Mr Shahak, who left the army only two weeks ago, played a leading role in negotiating the Oslo peace accords between Israel and the Palestine Liberation Organisation. But his involvement attracted criticism from Mr Netanyahu, who was leader of the opposition at the time.

The former general's popularity has soared in recent months, despite his silence about his political intentions.

He lashed out at Mr Netanyahu for fostering an "abyss of hate" between religious and secular Jews and the political left and right during his tenure. The Labour party, he said, had not done enough to bridge gaps. "A country at war with itself is liable to bring disaster if it is not stopped in time," he said.

Mr Shahak hinted that a Palestinian state would eventually emerge, but said this would have to be agreed in negotiations on a final

peace settlement. He also insisted that Israel would keep Jerusalem as its united capital, including Arab east Jerusalem, which Palestinians hope will become capital of a future state.

Mr Shahak rejected a unilateral withdrawal from Israeli-occupied southern Lebanon, and said Israel must negotiate a pullback with Syria. However, he strayed from traditional Israeli policy by saying peace with Syria would require territorial compromise on the occupied Golan Heights.

According to a recent Gallup poll, Mr Shahak would receive 17 per cent of the vote in the first round of elections, behind Mr Netanyahu, with 31 per cent, and Ehud Barak, Labour leader, with 24 per cent. If Mr Shahak overtook Mr Barak in the first round and advances to a run-off on June 1, the polls indicate he would defeat Mr Netanyahu.

Soft-spoken pessimist, Page 4

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Survey details of forthcoming editorial surveys. <http://www.ft.com/surveys>



Britain's Prince Edward, youngest son of Queen Elizabeth, with Sophie Rhys-Jones after their engagement was announced yesterday. AP

### FT WEATHER GUIDE

#### Europe today

The Iberian Peninsula, Italy, Greece, southern France, the Alps and the Balkans will be mainly fine and mild with sunny spells and only isolated showers, although there will be fog in northern Italy, Alpine valleys and the Balkans. Northern France, the Low Countries and Germany will be mild with rain. Scandinavia and north-west Europe will be cold and wintry.

#### Five-day forecast

Much of central, north and north-west Europe will turn much colder later tomorrow and more particularly over the weekend with snow and severe frost becoming more widespread. Colder air will also penetrate the western Mediterranean during the weekend but at the same time a developing depression will bring heavy rain to parts of western Spain and Italy.



Situation at midday. Temperatures maximum for day. Forecasts by FT WEATHER CENTRE

#### TODAY'S TEMPERATURES

City	Temp	City	Temp	City	Temp	City	Temp
Madrid	14	Paris	10	London	10	Amsterdam	9
Barcelona	14	Berlin	8	Brussels	8	Frankfurt	9
Seville	15	Stockholm	4	Copenhagen	5	Helsinki	3
Lisbon	15	Moscow	-1	St. Petersburg	-2	Warsaw	1
Algiers	18	Beijing	1	Tokyo	5	Sydney	22
Accra	27	Hong Kong	16	Auckland	12	Wellington	13
Dhaka	27	Perth	17	Christchurch	11	Dunedin	10
Colombo	27	Wellington	17	Hamilton	10	Queenstown	9
Delhi	27	London	10	Christchurch	11	Dunedin	10
Calcutta	27	Wellington	17	Hamilton	10	Queenstown	9
Manila	27	London	10	Christchurch	11	Dunedin	10
Bombay	27	Wellington	17	Hamilton	10	Queenstown	9
Singapore	27	London	10	Christchurch	11	Dunedin	10
Bangkok	27	Wellington	17	Hamilton	10	Queenstown	9
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COMPANIES & MARKETS

THURSDAY JANUARY 7 1999

Week 1

THE LITCHFIELD GROUP OF COMPANIES NO to monetary union NO to VAT enlargements NO to European tax control NO to greater control by the Brussels bureaucracy

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INSIDE

Storebrand in NKr1.6bn bid for bank Storsbrand, Norway's leading insurer, launched a NKr1.6bn (\$215m) takeover bid for Finansbanken, Norway's second largest private bank...

LucasVarity in talks on expansion LucasVarity, the automotive group, is in discussions with a number of companies over plans to expand through a series of small-scale acquisitions...

Japanese stocks hit by bond yields Japanese stocks are being pounded by high government bond yields, and negative corporate growth prospects. The rise in the yield on bonds has made equities less attractive relative to bonds...

Russian market's unhappy new year Last year the Russian stock market fell from being 1997's top performer to last position. The slump was powered by a combination of global and Russian factors...

Kenya sees rise in demand for its tea Kenya's tea sector has experienced strong demand from Egypt, Pakistan and the UK pushing prices up by 5 cents to 20 US cents a kilo...

Body Shop names finance director Alastair Murray has been named the new finance director of Body Shop International, the cosmetics and toiletries retailer.

Outlook improves for Pakistan wheat The outlook for Pakistan's wheat crop has improved with the arrival of widespread rains after a two-month dry spell.

Banks report smooth euro trading Trading began smoothly this week in the new European currency, as most banks found problems could be dealt with easily by hand.

COMPANIES IN THIS ISSUE Abbey National 30 Liberty Re 18 Abbot 30 Lookhead Martin 17 AirTouch 10,13 LuxeVarity 18 Airbus 4 Mediaset 13 AlliedSignal 17 Morgan Stanley 14 Avel Springer 18 News Corporation 13 BP Amoco 17,20 Next 18,20 Baxi Company 14 Nissan 7 Banco Popular 17 Northrop Grumman 17 Banco del Pacifico 17 Northville Inds 17 Bell Atlantic 17 Novartis 14 Boeing 4,17 Orange 30 Bridgestone 13 PIVCO Industries 14 British Aerospace 30 Perez Compano 17 British Airways 30 PetroFina 14 CTR Group 17 Phillips Petroleum 17 Citicorp 13 Photobition 18 Conoco Natural Gas 17 PwC 1 Cox Comms 18 Reebok 4 Deutsche Bank 7 Repsol 17 Dixons 30 Shell 30 ENI 17 Stocks Auto 14 Enbridge 17 SmithKline Beecham 30 Ford Motor Co 14 Sony 18 GLH (Derivatives) 17 Telewest Comms 18 Inno Wellcome 30 Total 14 Goldman Sachs 14 Valco 14 Griffin Trading 17 Vodafone 10,13,30 Gucci 12,13 Volvo 1,12 Hicks Muse 18 Waco 18 J.P. Morgan 17 Walt Disney 14 Kingfisher 30 Warburg Dillon Read 14 Kirch Group 13 Williams Int'l 17 LVMH 12,13 YPF 17 Lehman Brothers 17 Zeneca 30

COMPANIES IN THIS ISSUE

Table listing various companies and their page numbers in the issue.

CROSSWORD, Page 24

MARKET STATISTICS

Table with market statistics including Annual reports club, Benchmark Govt bonds, and Emerging market bonds.

Kirch claims assets over \$12bn

Troubled German media group tries to soothe backers Kirch Group, the troubled German media group seeking a cash injection, has told potential investors that its assets are worth more than DM20bn (\$12bn) and it has lower debt than has been estimated.

1 of at least DM10m this year, following restructuring and a write-off of debt. Dieter Hahn, Kirch's managing director, said free television assets were now "healthy to the core and highly profitable".

Disney is close to breaching Chinese barrier

Walt Disney is bracing itself for a great leap forward into China and a strategic shift backwards in its traditional role as a provider of wholesome family entertainment.

Strong yen hits home in Japan

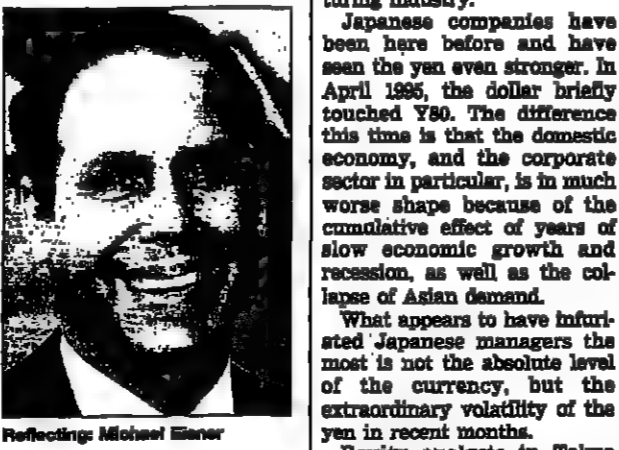
Exporters hurt by sharp rise against dollar The yen might have fallen back marginally yesterday, but there is no disguising the pain among the country's manufacturers from the recent sharp appreciation in the Japanese currency.



Equity analysts in Tokyo yesterday were struggling to update their earnings forecasts for the current financial year. Most presume the yen is going to continue to appreciate.

For Citicorp, the world's leading watch manufacturer, a movement to ¥100 against the dollar would mean pre-tax profits could be nearly 10 per cent below the company's forecast based on a ¥116 exchange rate, made last November.

But in the short term, according to Michael Eisner, chairman and chief executive, investors may expect few financial fireworks from the company as it starts the new century.



Reflecting: Michael Eisner

could be in the pipeline. "We could be getting close to the time for a major Disney attraction in the world's most populous nation," he said, in his first public acknowledgement of his meetings in October with the Chinese leadership in Beijing.

His statement confirmed renewed optimism within the company that the relationship between Disney and China, frozen after the 1996 release of the pro-Tibet film Karamba, is on the mend and that plans to build a theme park and release more products in China are advancing.

The company planned to respond by making more movies under the Walt Disney brand with "renewed emphasis on Disney family films".

But evaluating the damage from the yen's rise is proving tricky. "One of the problems is the extent to which companies have hedged," says Garry Evans, strategist at HSBC Securities.

Vodafone to talk to AirTouch

By Richard Waters and William Lewis in New York and Alan Cane in London

Senior executives from Vodafone and AirTouch may meet for the first time as early as today to discuss the UK wireless carrier's \$55bn (£33bn) merger proposal, a sign of the seriousness with which the US company is treating the unsolicited offer despite its plans for a rival merger.

Vodafone's offer, made over the weekend, arrived as AirTouch was negotiating a \$45bn merger with Bell Atlantic.

Gucci up as LVMH holding is revealed

Shares in Gucci, the Italian fashion group, jumped by 19 per cent to €55.4 (\$65) yesterday when LVMH, the French luxury goods conglomerate, announced that it had acquired more than 5 per cent of the company.

Domenico de Sole, Gucci's president, admitted that he had "no prior knowledge" of the investment. LVMH, which controls the Louis Vuitton, Christian Dior and Givenchy fashion brands, said it would make its "intentions known before the end of the week".

LVMH's shares rose by 7 per cent after the announcement. Bernard Arnault, LVMH's acquisitive chairman, might mount a full bid for Gucci, which could cost up to \$4bn.

Prada, which spent about \$340m in total, claimed to have bought the holding as an investment. At one stage it owned a low because Gucci's shares had been depressed by the Asian downturn.

LVMH is believed to have bought a small stake in Gucci when the latter went public in 1986, as part of its policy of investing in rival companies to secure access to shareholder information. It is understood to have similar holdings in Ralph Lauren and Donna Karan, the US fashion groups.

Market traders suspect that LVMH bought most of its current Gucci holding in early December, when a large tranche was purchased anonymously. LVMH did not have to disclose its stake until it owned more than 5 per cent of Gucci.

For Citicorp, the world's leading watch manufacturer, a movement to ¥100 against the dollar would mean pre-tax profits could be nearly 10 per cent below the company's forecast based on a ¥116 exchange rate, made last November.

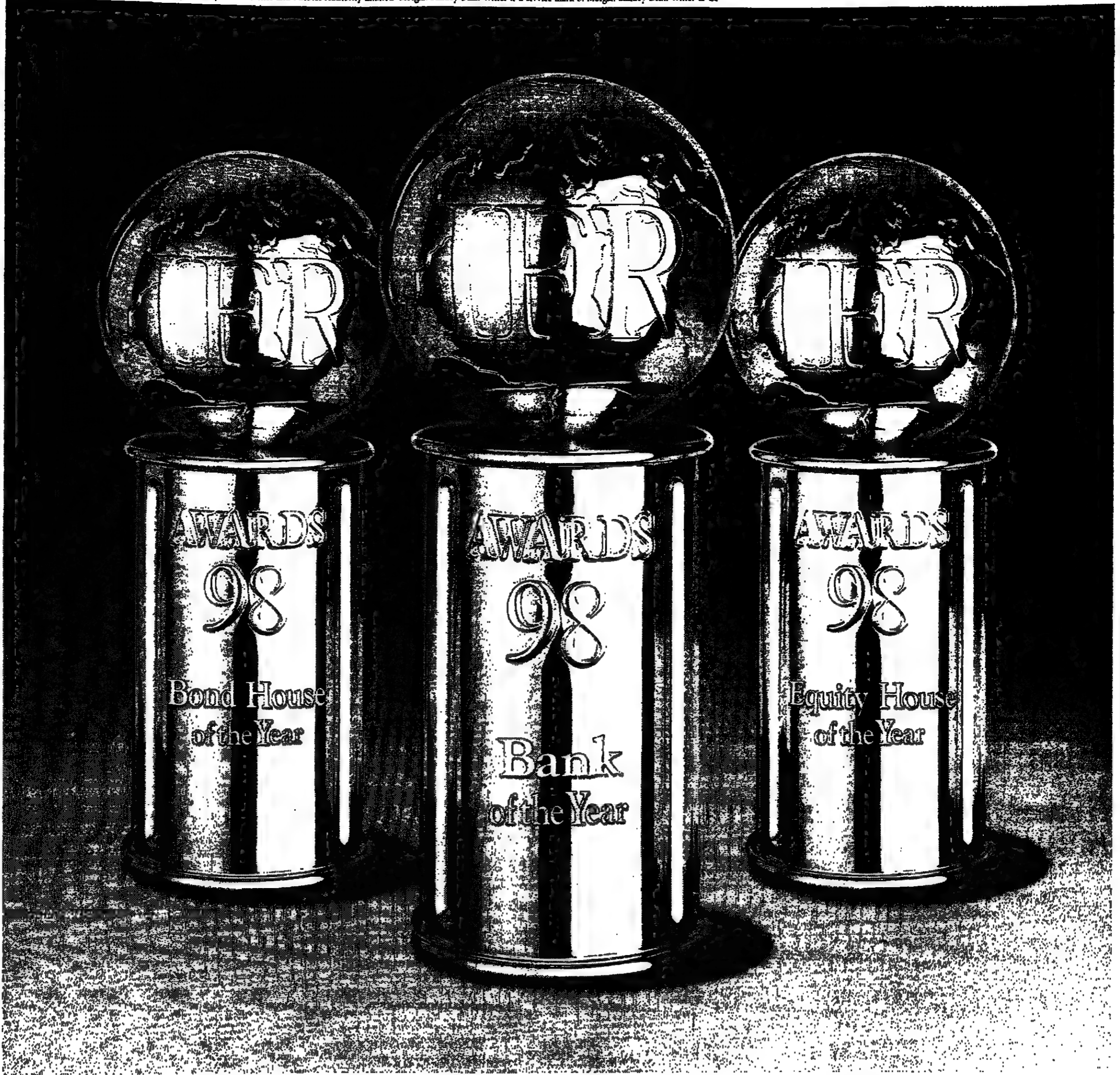
Market traders suspect that LVMH bought most of its current Gucci holding in early December, when a large tranche was purchased anonymously. LVMH did not have to disclose its stake until it owned more than 5 per cent of Gucci.

Chopard GENÈVE LUC watch advertisement featuring a detailed image of the watch and descriptive text.

ver format hearing f joins race e minister



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- Osaka
- Paris
- São Paulo
- Seoul
- Shanghai
- Singapore
- Sydney
- Taipei
- Tokyo
- Toronto
- Zurich

tal seeks shareholder support ahead of vote

ada output at record

rd takes electric car stake

den sales rise 16%

ha sales surge

rise by 9.5% cash injection

COMPANIES & FINANCE: ASIA-PACIFIC

THAILAND THAI MILITARY AND BANGKOK BANK SEEK SUPPORT BUT ARE RELUCTANT TO CLAIM TIER 1 ASSISTANCE

Banks apply for Tier 2 capital help

By William Barnes in Bangkok

That Military Bank and Bangkok Bank both confirmed yesterday that they are seeking Tier 2 capital help from the authorities...

an IMF requirement - the surviving institutions are still showing reluctance to bite the Tier 1 bullet. So far, only Siam Commercial Bank has said it would apply for Tier 1 support...

opting for Tier 3 assistance. Existing shareholders in banks seeking Tier 1 funds would effectively see their stakes wiped out. All banks are expected to seek Tier 2, non-equity help under the support programme...

1 requirements may be aimed at Siam Commercial Bank, Thai Military Bank and Bank of Ayudhya, which have been relatively unsuccessful in recapitalising and were slow to exploit a stock market upturn...

However, Chatomongkol Senakul, Bank of Thailand governor, said earlier that the Bangkok Bank and the Thai Farmers Bank have the resources to survive at least until June. Even government assistance does not immediately end the pain, since it emphasises improving the appearance of capital adequacy without injecting significant fresh liquidity.

Nissan Motor disposals continue

By Alexandra Hanney in Tokyo

Nissan Motor, Japan's second largest carmaker, said yesterday it would sell for an undisclosed sum most of an unlisted loom manufacturing subsidiary to Toyota Automatic Machine Works, a machinery manufacturer affiliated to Toyota Motor.

NEWS DIGEST

INSURANCE

Sun Life set to form Indian alliance

Sun Life of Canada yesterday joined the wave of international companies poised to enter India's insurance market when it detailed plans for a wide-ranging financial services alliance with the Aditya Birla group.

BANKING

IBJ joint venture dissolved

IBJ Schroder Bank & Trust, the New York-based joint venture between the industrial Bank of Japan and Schroders, yesterday said the partnership had been dissolved following the purchase of the shares held by the UK merchant banking group.

VIETNAM AIRLINES

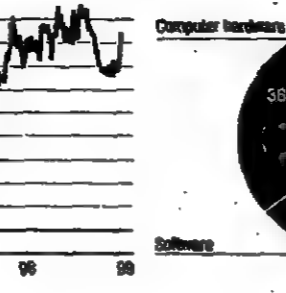
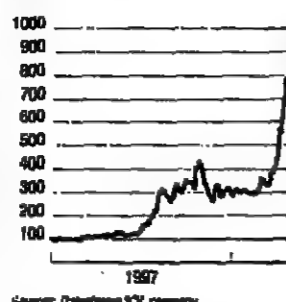
Passenger numbers down

Vietnam Airlines transported 2.48m passengers last year, down 2 per cent from 1997, it said yesterday. The number of passengers on the international flights reached 800,000, down 5 per cent from a year earlier and 10 per cent from 1996.

Software success gives Wipro hard core problem

Diversified Indian group must decide what to do with its other activities, writes Krishna Guha

Wipro: the stockmarket darling. Share price relative to the S&P Composite in \$ terms



at a similar rate. The remaining strand to Wipro's strategy is to exploit the opportunities that lie in combining software skills with expertise in other industries. Computer hardware is one obvious example.

Wipro, the darling of India's stock market, since January last year, Wipro's shares have risen from Rs466 to Rs123.5 on Tuesday in a falling market. Wipro, a diversified conglomerate and India's second biggest software exporter, is the country's fourth biggest private-sector enterprise by market capitalisation.

Corporation's sales - the main listed company plus joint ventures - but 68 per cent of profits. Including computer hardware, information technology generated 87 per cent of sales and 78 per cent of profits. "The market is valuing our company on the basis of software," he says.

This, however, raises the question of what to do with these other divisions, that provide half of Wipro's turnover and employ the majority of its staff. Most investors regard them as an unnecessary drag on the IT business, and would like to see them sold.

Investors have kept quiet about Wipro's non-software businesses while the software boom has carried its shares ever higher. Even now, however, many privately have complaints. "I do not understand Wipro," says one fund manager who holds the company's shares.

Advertisement for Access Europe Ltd. featuring the headline 'You've heard the Euro Ballyhoo!' and promoting their electronic transaction software. Contact information includes website www.access-europe.com and phone number 0181 408 7888.

Advertisement for Financial Times Surveys featuring the 'FT 500' survey. It includes the date 'Friday 22 January 1999' and contact details for Ian Ely-Corbett in London.

ETBA Finance announcement regarding a public tender for the sale of assets of 'THE COMMERCIAL & INDUSTRIAL COMPANY FOR THE SALE & RECYCLING OF METALS S.A.' (REMET S.A.). The text details the terms of the tender, including the location of the assets and the deadline for bids.

A collection of financial service advertisements including 'ALL FUTURES, OPTIONS & MARGINED FOREX', 'FOREXIA FAX', 'FOREX 24 HOURS', and 'REAL-TIME DATA ON YOUR PC'. Each ad provides contact information and details of the services offered.

Vertical text on the right edge of the page, including 'being cuts knoc', 'TR hires Lehman', and 'water venture ne', likely from an adjacent page.



COMPANIES & FINANCE: THE AMERICAS

Griffin probe alleges unauthorised trades

By Vincent Boland in London and Nikkii Tait in Chicago
The investigation into the collapse of Griffin Trading Co. a Chicago derivatives firm, has uncovered alleged unauthorised trading by a senior executive at the firm which could have cost it up to \$3m.

with the firm's London office, incurred losses of \$6.2m (\$10.3m) just before Christmas in trading German government bond futures on Eurex, Europe's biggest futures market.

night whether the alleged losses, which people familiar with the matter said were estimated initially at between \$1.5m and \$3m, were related to those of Mr Park.

Fahner's office said he was in meetings in Washington DC and not immediately available.

ing them from trading on the London International Financial Futures and Options Exchange.

firms, allowing them to continue trading normally on the Chicago Board of Trade and the Chicago Mercantile Exchange.

Boeing cuts knock Northrop

By Christopher Parkes in Los Angeles and Nikkii Tait in Chicago
Northrop Grumman shares tumbled more than 7 per cent in early New York trading yesterday after the US aerospace and defence group warned that 1999 profits could be 20 per cent lower than expected, and announced a \$125m charge against earnings for the closing quarter of 1998.

ing's planned production cuts for most of its problems, and said reduced demand for commercial airliner components would reduce 1999 revenues by about \$350m.



Kent Kress, analyst's estimates of profits overstated
Northrop, which announced a \$60m charge in August, said recently that the latest round of cuts at Boeing, for which it makes fuselages and doors, would result in the loss of 1,100

YPF sale price above forecast

By Ken Warr in Buenos Aires
Argentina's government has set a minimum price significantly above analysts' expectations for the sale of a further stake in YPF, the energy group.

ment," said Hernan Lodeniz, energy analyst at Credit Lyonnais in Buenos Aires. "I don't see anyone making an investment of this size unless they believe they can move to have control of YPF."

NEWS DIGEST

OIL

Phillips Petroleum to cut jobs and spending

Phillips Petroleum yesterday joined the long list of oil companies to cut jobs and capital spending in reaction to the worst industry conditions in 12 years. The Oklahoma-based group said it would cut about 1,400 jobs from its 17,200 workforce, reduce 1999 capital spending 30 per cent to \$1.5bn and take other cost-cutting measures, which it says will save it \$230m annually.

Alliance to buy terminal

An international consortium including Enbridge of Canada, a leading energy transport, distribution and services company, has reached an agreement to purchase an oil storage and ship loading terminal in Venezuela from state oil company Petroleos de Venezuela for \$385m.

ECUADOR

Bank regulator blocks merger

Ecuador's banking regulator decided on Tuesday to block the merger between Banco del Pacifico and Banco Popular which would have created the country's largest bank with combined assets estimated at \$2.3bn.

CTR hires Lehman in drive to raise \$3bn

By Daniel Bögl
CTR Group, the company behind Project Oxygen, a planned global fibre-optic cable network, has fired J.P. Morgan as its financial adviser and hired Lehman Brothers to try to raise \$3bn in project financing.

link 170 countries with 300,000km of cables, at a total cost of \$1.4bn. However, CTR has already missed a self-imposed deadline of last December for raising the first portion of funds. Neil Tagare, chairman and chief executive, said: "Lehman Brothers has put a large number of senior people on to our project and we are confident of raising the money very soon."

Meanwhile Project Oxygen has already signed up over 40 international telecom operators and pre-sold them more than \$1bn of capacity over 25 years.

Underwater venture needs backing to stay afloat

Success of vast network is not assured, writes Daniel Bögl
The call of the sea may be about to turn into reality. CTR Group, a New Jersey-based start-up, is proposing to encircle the globe with a vast network of underwater fibre-optic cables. Dubbed Project Oxygen, the network would span 168,000km across 99 landing points in 78 countries, reaching every continent but Antarctica and furnishing the infrastructure for a "super internet".

1997, remains. Of course, the seabed is already littered with telephone cables - most of today's international calls are routed through them. But with traffic volumes growing at 80-100 per cent a year due to the internet, "no submarine cable system yet built has remained unfilled", according to Jack Keasler, who runs communications consultancy KEM.

CTR only employs around 60 people, its chairman is a well-known figure in the industry and was closely involved in Flag. Even so, CTR has scaled back its ambitions. Originally, Oxygen was planned as a 300,000km network connecting 170 countries with a price tag of \$1.4bn. That was quickly cut into two phases, with the first \$1.1bn at a cost of \$10bn to be built by early 2003 and ubiquitous coverage, including Africa to be added later.

DEPOSITARY RECEIPT LEADERSHIP

Table listing various companies and their depositary receipt leadership. Includes logos for Ahold, Allianz, ALSTOM, AMVESCAP, anglogold, BANKINTER, BPER, BUNYON, CENTRICA, FINANBANK, Johnson Matthey, MALTACOM, National, Rhodia, ROSTELCOM, SAP, sappi limited, TELECOM, swisscom, UBS, United Utilities, and others.

1998. Another very good year.

ENGINEERING GROUP'S SHARES RISE AS IT EXPLORES A NUMBER OF OPTIONS

LucasVarity in talks with several parties

By Andrew Edgell-Johnson

LucasVarity, the automotive and aerospace components group, is debating whether to expand through a series of small-scale acquisitions, joint ventures and alliances rather than a full-blown merger or sale of the company. The group confirmed yesterday that it was in discussions with "a number of companies," but cautioned that these were at a preliminary stage. One investment banker familiar with the company said: "In this industry, everyone is talking to everyone else."

LucasVarity is understood to be particularly keen to build up its steering and suspension activities, to allow it to sell integrated chassis control systems. It said that its strategic options included

"joint ventures, acquisitions, dispositions, alliances, and mergers or other combinations." Although it is thought to have talked to TRW and other US components companies, the group said: "There can be no certainty that any of these conversations will result in a definitive agreement."

The statement helped lift LucasVarity's shares by another 11 1/2p to 226 1/2p, valuing the group at almost £2.2bn. John Buckland, an analyst with Daiwa, said: "Considering the price now, most shareholders are expecting much more than a no-premium merger."

Others added that UK investors who hold shares in Lucas Industries before its 1996 merger with Varity Corporation of the US may be reluctant to accept a second

no-premium merger. Analysts said LucasVarity's shares, at 12 times forecast earnings, were no longer at a significant discount to many of their US peer group - an argument the company had used to support its case for changing domicile. The company is not expected to announce any large deal until its fourth-quarter results in March, when it

Next reports stronger trading

By Peggy Hollinger

Next, the fashion retailer that last March suffered a serious blow to its stock market credibility after issuing a profits warning, has delivered unexpectedly good news to a beleaguered sector. The group yesterday revealed that sales in the two months to Christmas Eve were some 8 per cent ahead of last year, excluding the impact of new space. The news boosted Next shares by 46 1/2p to 562 1/2p.

The performance is likely to prove considerably better than that achieved by its rivals in the same period, many of whom will be making their Christmas trading statements next week.

"Arcadia, House of Fraser and Debenhams are all indicating they had a terrible Christmas," said one analyst.

"Next has definitely outperformed the market." However, analysts warned against extrapolating Next's strong November and December performance to

the second half as a whole. "When they report the figures to the end of January, like-for-like sales for the second half will probably be about 3 per cent down on last year, which is exactly where we thought they would be," one analyst said. Profit forecasts were held at about £150m-£160m (£22m-£26m) for this year, against last year's £184m.

On the whole, the statement reassured analysts that Next was recovering from the buying and merchandising errors that

prompted last year's profit warning.

Stock levels going into the January sales were some 18 per cent lower than last year, and David Jones, chief executive, said the group aimed to achieve a further 18 per cent reduction for next year.

"We have shown we have recovered from our problems and we will do well," he said. "We are still not where we want to be, but it is a hell of an improvement on 18 months ago."

Cox sells 12% Telewest stake

By Christopher Price

Telewest Communications yesterday experienced its second substantial change in share ownership in two weeks when Cox Communications, the US cable group, sold a 245m (£750m) stake to institutional investors. The sale represented about 13 per cent of the UK cable company and forms part of a continuing shake-out of the loss-making UK cable sector which has racked up billions of pounds in investment, and seen many of the original investors exit or merge their interests.

The sector had been shunned by investors as the cable companies performed badly against British Telecommunications in telecoms and British Sky Broadcasting in television. But recent marketing initiatives and rapid consolidation have changed the industry. Telewest emerged as the UK's biggest cable company, measured on homes passed, last summer when it took over General Cable, a move which brought in Vivendi.

However, the fact that such large holdings can be so readily sold also reflects a growing appetite for exposure to the sector; just before Christmas, Vivendi, the French utilities group, sold a 6.5 per cent stake in Telewest to institutional

investors for £200m. The sector had been shunned by investors as the cable companies performed badly against British Telecommunications in telecoms and British Sky Broadcasting in television. But recent marketing initiatives and rapid consolidation have changed the industry. Telewest emerged as the UK's biggest cable company, measured on homes passed, last summer when it took over General Cable, a move which brought in Vivendi.

Allied Textile buy-back likely

By Lucy Smy

Allied Textile, the carpets and cloth manufacturer, is planning to return cash to shareholders in the coming year, probably through a share buy-back. The company yesterday announced declines in turnover and operating profits for the year to September 30, alongside a special dividend of 4p.

John Corrin, chief executive, said: "We are consulting with our institutional investors to see what form they would like the money returned in. A buy-back seems to be the preferred option and with such a cash mountain it seems sensible." The shares rose 8 1/2p to 116 1/2p.

The company said it had been a tough trading year which had only seen an increase in pre-tax profits because of income from property disposals. Pre-tax profits, including £4.7m of property receipts, edged up from £16.3m to £16.5m. However, turnover fell from £231.7m to £206.5m and operating profit slipped from £15.9m to £13.8m. Mr Corrin said tough competition in the production of basic flannel for winter coats in the US had dragged the division down.

Mr Corrin said Allied was assessing synthetic fibre producers in the UK as possible bid targets, and was also talking to synthetic and natural fibre companies in eastern Europe.

RESULTS

Table with columns: Company Name, Share Price, Dividend, and other financial metrics for Allied Textile and Investment Trusts.

Photobition attacks Wace record

By David Blackwell

Photobition, the graphics and media services group that last month launched a hostile £88.1m (£140m) bid for Wace, yesterday attacked the five-year record and management of its loss-making target. The offer document says Wace has suffered a fall in turnover of 30 per cent since

1988, incurred a cumulative loss of £19.1m and paid no dividend since 1996. Eddie Marchbanks, Photobition's chief executive, denied claims by some institutional investors that the bid was an attempt to buy the digital imaging services group on the cheap at a low point in its fortunes. "We are offering quite a decent price," he said.

The document states that in the same five years, Photobition has more than quadrupled profits and earnings and doubled its dividend. Its share price has risen above 280p against 30p at the time of the 1995 listing, after adjusting for a share split. Wace maintained its reputation for the performance capital. Brown, chairman, said it was restructured and was

beginning to generate significant levels of new business. Photobition is offering 21.83 shares for every 100 Wace. At yesterday's close of 287 1/2p, down 3 1/2p, this values Wace at 88.8p a share. There is a full cash alternative at 50p. Photobition is also offering £28.8m for the performance capital. Wace shares rose 6p to 61 1/2p.

CHUGAI PHARMACEUTICAL CO. LTD.

NOTICE OF AN ADJOURNED MEETING of the holders of the outstanding U.S.\$50,000,000 3 1/2% per cent. Bonds due 2000 of CHUGAI PHARMACEUTICAL CO. LTD.

Notice is hereby given that an adjourned Meeting of the holders of the above Bonds (the "Bonds") will be held at the offices of the undersigned, Messrs. One Bank Street, London EC2Y 5DP on 22nd January, 1999 at 11.30 a.m. (London time) for the purpose of considering and, if thought fit, passing the following resolutions which will be proposed at an Extraordinary Meeting of the holders of the Bonds in accordance with the provisions of the Trust Deed (the "Trust Deed") dated 15th September, 1998 made between the issuer and the trustee (the "Trust Deed") in relation to the Bonds.

EXTRAORDINARY RESOLUTION (1) That the undersigned Messrs. One Bank Street, London EC2Y 5DP, be and they are hereby appointed as the trustee of the Trust Deed (the "Trustee") in relation to the Bonds (the "Bonds") and that the Trustee be and they are hereby authorized to do all such things as may be necessary or expedient for the purposes of the Trust Deed.

PRINCIPAL PAYING AGENT AND REPLACEMENT AGENT The Anglo Bank Ltd, 11 Queen Victoria Street, London EC4N 4JF, PAYING AGENTS

SHOWA HIGHPOLYMER CO. LTD.

NOTICE OF AN ADJOURNED MEETING of the holders of the outstanding ¥3,000,000,000 0.7 per cent. Convertible Bonds due 2006 of SHOWA HIGHPOLYMER CO. LTD.

Notice is hereby given that an adjourned Meeting of the holders of the above Bonds (the "Bonds") will be held at the offices of the undersigned, Messrs. One Bank Street, London EC2Y 5DP on 22nd January, 1999 at 11.30 a.m. (London time) for the purpose of considering and, if thought fit, passing the following resolutions which will be proposed at an Extraordinary Meeting of the holders of the Bonds in accordance with the provisions of the Trust Deed (the "Trust Deed") dated 15th September, 1998 made between the issuer and the trustee (the "Trust Deed") in relation to the Bonds.

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PRINCIPAL PAYING AGENT AND REPLACEMENT AGENT The Anglo Bank Ltd, 11 Queen Victoria Street, London EC4N 4JF, PAYING AGENTS

Forex, Futures & Options advertisement with contact details for 0171 522 522 and 3333.

BERKELEY FUTURES LIMITED advertisement for futures and options trading, contact 020 820 8200.

Futures & Options \$5-\$22 advertisement for online trading and margined forex, contact 0800-262-472.

mini REUTERS advertisement for a free trial, contact 0800 88 88 06.

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Market-Eye advertisement for a free trial, contact 0800 321 321.

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Advertisement for advertising services, contact 0171-873-4928.

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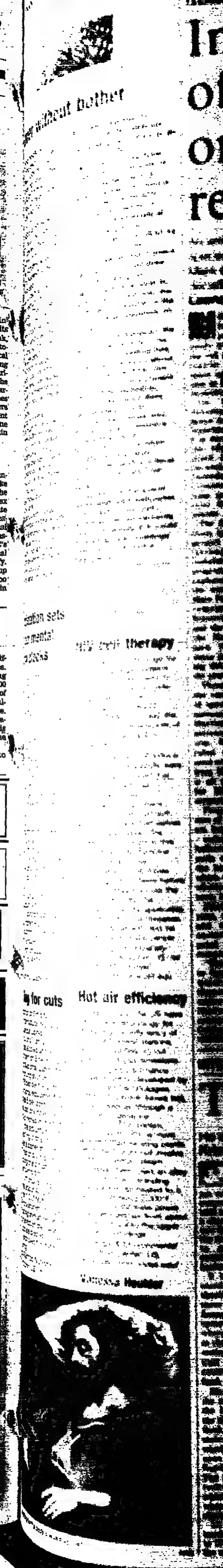
UK Middle-Market Companies advertisement for Friday March 12, contact 0171 431 220 1199.

FINANCIAL TIMES advertisement for a free trial, contact No FT, no comment.

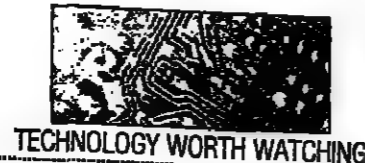
We want your business. For more information on business advertising please call: Tel: +44 171 873 4874 Fax: +44 171 873 3064

PERSONAL PUBLIC SPEAKING advertisement for training and speech writing, contact Tel: 01727 661133

Advertisement for Haj Haffjee in London, contact Tel: +44 171 873 4281 Fax: +44 171 873 4862 email: haj.haffjee@FT.com



TECHNOLOGY AND MANAGEMENT



TECHNOLOGY WORTH WATCHING  
Hover without bother

Judging height accurately has long been a problem for helicopter pilots flying or hovering close to the ground, but a new acoustic altimeter might provide a solution, writes Marcus Gibson.

Traditional altimeters using radar and laser light (lidar) are well-established but suffer from inaccuracy at low altitudes, says Jeremy Nedwell, director of UK-based Subacoustech and a former lecturer in acoustics. "This is due to difficulties in estimating the very short delays of electromagnetic waves when striking the ground at low altitudes."

In addition, says Dr Nedwell, lidar systems do not work well over water because it is transparent and light is not "scattered" efficiently.

Sound, in contrast, travels much more slowly - at only 340m per second - allowing very accurate measurements of height. Sound has the advantage of bouncing back from most surfaces, and there are no surfaces that are entirely "absorbent", Dr Nedwell says.

Subacoustech, based in Southampton on the south coast of England, will soon begin aerial trials of its Boundary and Altitude Tracking System, Bats, a low-level acoustic altimeter and obstacle

avoidance system for helicopters that operates below heights of 40m to an accuracy of 2cm.

A compact transducer fitted to the underside of the helicopter emits a beam of ultrasonic sound, typically above 20 KHz.

A new and powerful algorithm (mathematical formula) is used to calculate the time taken by the beam to return.

When rescue helicopters are involved in activities such as picking up casualties at low level in hazardous conditions, the speed and outcome of the mission often depends on the skill of and co-ordination between the pilot and winchman. The winchman frequently has to relay information about height over the intercom but the noisy environment can lead to confusion.

Dr Nedwell says Bats can be linked up to provide direct input into the helicopter's avionics. "It would allow a helicopter pilot to retain his station, and also provide him with a critical warning of impact," he says.

Captain Jim Ferguson, an experienced helicopter pilot, says an acoustic altimeter "would certainly help", especially if it could provide spoken readings direct into the pilot's headphones.

www.subacoustech.com

TECHNOLOGY MARS EXPLORATION

In search of life on the red planet

An armada of spacecraft will visit Mars over the next decade, writes Leonard David

It may be 20 years before human footprints are seen on the sandy stretches of Mars, but the red planet is set to be a regular fixture in world space agencies' flight schedules as they prepare for that momentous event.

On Sunday, the US National Aeronautics and Space Administration (Nasa) launched Mars Polar Lander. It is due to touch down near the edge of the planet's south polar cap in early December. It follows the December 11 launch of Mars Climate Orbiter, another Nasa project, which should enter its orbit by late September.

have understood when and why the Martian climate underwent such profound change.

"Foremost among the scientific questions we are trying to answer is understanding the biological potential of Mars," says Carl Fitcher, Nasa's science director for solar system exploration.

"Did life arise on Mars? The answer to that question is profound, whether it is yes or no."

An international roadmap for future red planet exploration includes Nasa - which is spending about \$300m a year on Mars exploration until at least 2005 - the Centre National D'Etudes Spatiales (CNES), which is France's space agency, and the Agenzia Spaziale Italiana, the Italian space agency.

Nasa has begun discussing collaborative work with Japan, Germany and the European Space Agency (Esa), which could encompass Esa's proposed Mars Express project. Due for launch in 2003, this may carry the Beagle 2, a lander designed by the Open University in the UK for seeking signs of life on Mars.

A key element in multi-national Mars research involves using France's powerful Ariane 5 rocket to launch a French-made Mars orbiter in 2005.

It will scoop up seccor ball-sized containers of Martian rock and soil that will have been flung into orbit via small rockets fired from the planet's surface. The CNES-built orbiter will rendezvous with the containers, sending back to Earth the precious cargo for landing, perhaps in Australia, in 2005.

Several robotic sample missions are envisaged in following years, with scientists eager to analyse each bit of material in order to



New horizons: an artist's impression of the Mars Polar Lander

Nasa

IN BRIEF

Anticipation sets off our mental alarm clocks

Some people seem to have mental alarm clocks that let them decide, quite accurately, the time they will wake up. The way this works is outlined in a paper in today's Nature, the scientific journal.

Researchers at the University of Lübeck in Germany monitored 16 volunteers over three nights in an experiment that involved waking some of them up earlier than they expected.

The results showed that the expectation that sleep will end at a certain time induces a marked increase in the concentration of the hormone adrenocorticotropin in the blood an hour before waking.

Their findings indicate that "anticipation, which is generally considered to be a unique characteristic of the regulation of conscious action, pervades sleep."

University of Lübeck, Germany, tel 4915003633; e-mail born@ig.mu-luebeck.de

HIV cell therapy

A pioneering technology for introducing large proteins into cells is being used to destroy HIV-infected cells. Researchers at the Washington University School of Medicine say the work is "the first example of an entirely new field of protein therapy."

Two enzymes that induce cells to commit suicide were attached to a protein that can slip through cell membranes. This combination of proteins caused cells infected with active HIV to kill themselves within a few hours. The research, published in this month's Nature Medicine journal, uses a new technique which involves unfolding the proteins before they are passed across the cell membranes. The approach may be applicable to other infectious diseases. The technique will next be applied to prostate cancer.

Washington University School of Medicine: US, tel 3142860119; e-mail sage@medicine.wustl.edu

Hot air efficiency

Researchers in the US have developed technology for improving the efficiency of coal-fired power stations, which could help to cut greenhouse gas emissions.

The high-performance power system, developed by the United Technologies Research Centre, blows hot, pressurised air through a turbine to generate electricity. The system, known as HIPPS, is more efficient than existing plants because it does not involve creating heated steam.

Researchers used an alloy capable of withstanding a pressurised air heated to a record-breaking 2,000°F. This could increase power plant efficiencies from about 35 per cent into the upper 50 per cent range.

Energy & Environmental Research Center: US, www.eerc.und.nodak.edu

Did life arise on Mars? The answer to that question is profound, whether it is yes or no

unveil a past and present picture of Mars.

"We don't believe that for the next 10-15 years we can build and launch small enough equipment that can do those kind of measurements on Mars. So we have to bring Mars back to the equipment," says Mr Hayes.

A brief history of Mars missions

1960s: former Soviet Union launches first Mars probes, writes Leonard David. All fail to fly by the planet or return planetary data.

US Mariner 3 fails at launch, but Mariner 4 completes first successful photo fly-by of Mars, followed by Mariner 6 and Mariner 7 which send back further pictures.

1970s: both USSR and US have Mars mission failures early in the decade. Russia's Mars 2 and Mars 3 drop the first landers onto the Martian surface. Both apparently fail victim to a raging dust storm.

US Mariner 9 swings into Mars orbit, transmitting thousands of images showing dormant Martian volcanoes, a large valley, and other striking features. Russia's Mars 4, 5, 6, and 7 encounter differing sets of problems at the planet, limiting their usefulness. Dual US Viking landers touch

at depths beneath the thick ice caps.

The lander's mechanical arm is ready for double duty. Soil samples will be scooped up and heated in small ovens, which will reveal concentrations of water, oxygen and carbon dioxide.

Another experiment will bring back the sounds of Mars. Sponsored by The Planetary Society, a California-based public space group, and University of California at Berkeley scientists, a microphone will record the planet's sounds on a computer speech recognition chip. Even in the thin

Ultimately, the most profound questions about Mars may require human expertise on the spot anyway.

"I would personally be very surprised if over the next 20 years it turns out to be extremely easy to find extant life on Mars," says Steve Squyres, professor of astronomy at Cornell University in Ithaca, New York.

"Sooner or later, you are going to want to make the transition to having humans there. And what could make a more compelling case for sending humans to explore a planet than the search for life," he adds.

Drilling for cuts

The cost of drilling for oil and other natural resources could be cut using "microdrilling", an approach being developed at the US Department of Energy's Los Alamos National Laboratory.

The drilling system, which costs 90 per cent less than conventional equipment and occupies 5 per cent of the space, can drill holes less than two inches in diameter. One of the advantages of microdrilling is that it only requires a barrel of fluid per 1,000 feet of drilling for lubricating the bit and motor and removing dirt.

Conventional drilling requires about 40 barrels of fluid per 1,000 feet.

The researchers are also developing miniature seismic instrumentation packages that can be placed inside the microholes for data gathering.

Los Alamos National Laboratory: US, tel

Vanessa Houlder

Waiting for the body's wake-up call

INTERVIEW G.P. GUPTA, INDUSTRIAL DEVELOPMENT BANK OF INDIA

The corporate surgeon

He is an experienced hand in the financial sector. But, says Krishna Guha, he wants the bank to stick to its knitting

The new chief of India's biggest financial institution has a job rather like a battlefield surgeon's. With the industrial economy suffering from a sharp slowdown, G.P. Gupta's first priority is to limit the number of casualties and to nurse fundamentally sound companies back to health.

It helps to be an experienced hand in the operating theatre. Mr Gupta spent three decades in project finance at Industrial Development Bank of India - where he has now returned as chairman - with an intervening stint as chairman of Unit Trust of India, the country's biggest mutual fund.

His career is testimony to the most powerful nexus in the Indian financial sector: the ties between the Reserve Bank, IDBI and UTI - the state-owned fund manager, which was recently in the news with problems at its flagship mutual fund, US-64. The Reserve Bank, India's central bank, founded IDBI, which in turn founded UTI, where it remains the biggest shareholder.

Mr Gupta has brought a touch of market know-how to IDBI, with plans to enter the secondary equity market

and to launch software venture capital funds.

But his approach is generally cautious, and radical change is not on the cards. There has been some restructuring and a new information technology strategy.

"We will now consolidate," he says.

Unlike many of his peers in India's banking system Mr Gupta remains wedded to the business of industrial loans and project finance - and sceptical about the merits of "universal banking".

"We would not like to get involved with auto finance, consumer loans and that kind of thing," he says.

"The culture of a commercial bank and a development financial institution is different, very different."

He is also reluctant to take over any of India's existing commercial banks - although he is aware that there may be pressure for him to do so in future as part of a long-overdue consolidation of the sector.

"Merger makes sense if you have full freedom to close down branches, retrain employees, cut costs," Mr Gupta says. "At present all these freedoms are not available."

Mr Gupta's intention is for

IDBI to stick to its knitting.

"We are an industrial development bank - the ninth biggest in the world - and our job is to provide finance to industry," he says. But industry is in dire straits and demand for investment is scarce.

"After liberalisation in 1991 a lot of new capacity came up," he explains.

"He is not about to pull the rug from under troubled companies"

"Demand was estimated on the basis of certain growth rates and that demand pick-up did not take place. Many industries are now operating at capacity levels lower than estimated when these projects were approved."

He says IDBI will give financial support to those which are going through a bad patch but are likely to prosper once demand recovers.

Some analysts say this approach will perpetuate the

problem of non-performing assets, officially 10.1 per cent of the total and by many estimates a lot higher. But others argue that IDBI cannot allow huge swathes of Indian industry to go to the wall.

The institution's exposure to the steel industry, for instance, could be greater than its net worth, some analysts estimate. Nursing companies back to health may be the only option.

Mr Gupta has a three-point test to determine whether a company is viable: does it have products of international quality; does it use globally competitive technology; and is it big enough to compete?

He says he will help such companies restructure: "We will support our borrowers in their efforts to become globally competitive." That may involve acquiring new technology, economies of scale or new markets.

For the next few years this type of lending - to fund restructuring rather than simple capacity addition - is likely to predominate. Mr Gupta says it will help fuel consolidation in Indian industry.

IDBI will work with other lenders to encourage companies to slim down, releasing cash flow to service their debts, making use of its equity stake in many pro-



G.P. Gupta is sceptical about 'universal banking' Sophie Whitfield

jects to exert leverage.

It will lend up to 50 per cent of the value of an agreed takeover, and may act as a matchmaker between sellers and buyers. In many cases both will be existing borrowers.

However, Mr Gupta will not finance hostile takeover bids.

"Acquisitions should take place as part of broader restructuring and should improve shareholder value on both sides," he says.

Wave record

Financial Times advertisement for a seminar on Middle-Market Companies, Friday March 12.

Financial Times logo at the bottom.

EURO PRICES

EQUITIES

Merger speculation boost for bourses

EUROPEAN OVERVIEW

European stock markets continued to power ahead yesterday as merger speculation led to a flurry of activity in selected sectors. Analysts said investors were coming back to the markets strongly after the holiday period and the smooth launch of the euro.

News that Vodafone Group was in merger discussions with its US counterpart AirTouch sent most mobile companies soaring, although shares in the UK group still ended unchanged at €15.45.

Automobile stocks were another feature as speculation grew that a big US/European merger would be announced in the next few weeks. With investors wondering which companies might be involved, shares in some potential candidates soared.

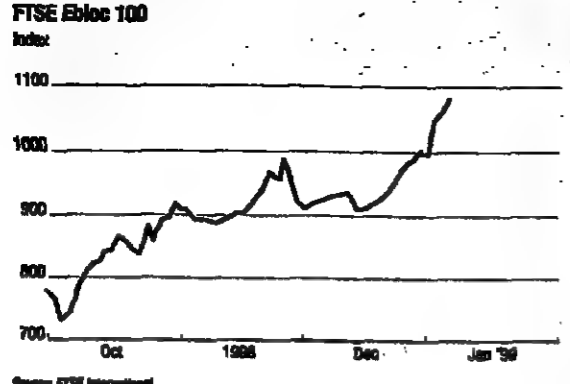


Table of FTSE Actuaries Share Indices. Columns include Index, Euro, Day's % change, and Total return.

Table of FTSE EUROTOP 100 INDEX FUTURES (LFFE). Columns include Open, Sell price, Change, High, Low, Est. vol, and Open int.

Table of FTSE EUROTOP 100 INDEX OPTIONS (LFFE). Columns include Strike, Bid, Ask, Call, Put, and other market data.

Table of FTSE EUROTOP 100 INDEX OPTION (LFE). Columns include Strike, Bid, Ask, Call, Put, and other market data.

Table of OTHER INDICES. Columns include Index, Bid, Ask, and other market data.

FTSE EUROTOP 300

Large table listing FTSE EUROTOP 300 components across various sectors like AEROSPACE & DEFENSE, AUTOMOBILES, BANKS, etc.

BONDS

Table of INTEREST RATE SWAPS. Columns include Tenor, Bid, Ask, and other swap details.

Table of EURO-ZONE BONDS. Columns include Issuer, Maturity, Bid, Ask, and other bond details.



Table of EURO-BOND YIELD CURVE. Columns include Maturity, Yield, and other yield curve data.

CURRENCIES & MONEY

EURO SPOT FORWARD AGAINST THE EURO

Table showing Euro Spot Forward Against the Euro for various currencies and maturities.

BONDS

INTEREST RATE SWAPS

Table of INTEREST RATE SWAPS. Columns include Tenor, Bid, Ask, and other swap details.

Table of EURO-ZONE BONDS. Columns include Issuer, Maturity, Bid, Ask, and other bond details.

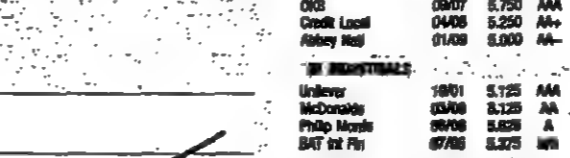


Table of EURO-BOND YIELD CURVE. Columns include Maturity, Yield, and other yield curve data.

Large advertisement for Barclays Capital featuring a stylized Euro symbol and the text 'Banks confront hard choices on mulling euros'. Includes the Barclays Capital logo and contact information.

Handwritten Arabic text at the bottom of the page.

# A smooth conversion greets Europe's new currency

By George Graham, Banking Editor

The memo posted on the wall of Chase Manhattan's operations centre in Bournemouth, on the southern coast of England, conveyed a sense of triumph.

"To: the traders and bankers. From: the techies and ops people. Re: the euro. We've done our bit. Now the action is all yours."

As trading began smoothly this week in the new European currency, it became clear that across the financial services sector, the techies and ops people had indeed done their bit, better even than they had dared hope.

Months of co-operation between banks that usually compete fiercely, along with repeated rehearsals of the conversion process, paid off as the long weekend from the setting of euro conversion rates on Thursday December 31 through to the start of dealing on Monday January 4 passed off with scarcely a hitch.

Most banks found that any problems could be dealt with easily by hand, and many were able to finish the entire process of converting bank balances ahead of schedule.

"We had worked this thing

Months of co-operation between fierce rivals ensured the euro got off to a trouble-free start

out to get through in a day and a half, leaving space to go back and rerun if anything went wrong. In the end, we came in four hours inside the schedule," said Bill Grant, Emu project director at Citibank, the banking arm of Citigroup, the financial services conglomerate.

"We had a few glitches where we took a few minutes to think about what to do, but I can't even think of anything I would describe as a problem," said Joanna Meager, at Salomon Smith Barney, Citigroup's investment banking subsidiary.

"Everybody involved did precisely what they were supposed to do, when they were supposed to do it," said Susan Kirchhoff, who headed the Emu team at J.P. Morgan, the US wholesale bank.

Even Canadian banks appeared to have handled the conversion smoothly, despite having to contend with 50cm of snow, which prevented many staff from making it into the office.

The smoothness of the conversion weekend was helped by relatively low volumes of transactions in the week between Christmas and New Year - lower even

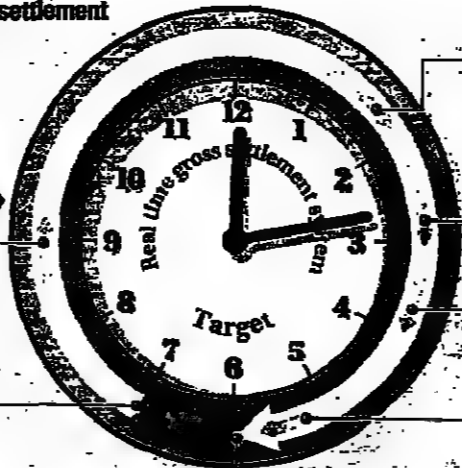
## Target: how the settlement system works

Examples of payment flows during the day

Range make individual large transfers for themselves and customers throughout the day

Payments batches processed overnight in national clearing house are settled

System opens



Clearing of exchange transfer liabilities

Members of foreign exchange trading minimum say own net balances

Net payment systems clear and of day balances

Overnight settlement system pays over end of day cash balances

System closes

than the norm for this off-peak period. As traders and treasurers started firing live euro bullets this week, rather than the "when issued" or synthetic deals from before the new currency's official birth, volumes remained moderate.

Not only the currency was new on Monday morning, this week also saw a baptism of fire for Target, the high value payments system set up by the European Central Bank to link national payments systems from all 15 European Union coun-

tries, and for the Euro Banking Association's new euro clearing system.

Some bankers had been a little bit nervous about the EBA system - not because of any substantial problems during testing, but simply because the expected volumes of euro payments clearing through the system were so much higher than the limited quantities of euros the EBA has until now been clearing.

But the system has worked smoothly so far. All 82 clearing members depos-

ited the required collateral payments on time on Monday morning and settled their payments successfully.

Unlike EBA, which is a net system in which banks accumulate the amounts they owe each other during the day and settle up the net balances at the end of the day, Target makes gross payments in real time. If Bank A owes Bank B €100m at 10am, and Bank B owes Bank A the same amount at 3pm, both payments will go through, where a net system would tot up the two pay-

ments and call it quits. Payments can, therefore, go through Target from the opening time at 7am Frankfurt time onwards.

It also began smoothly, but ran into bottlenecks towards the end of the day, when large volumes of payments stemming from national net payment systems started to flood into the system. Target operates as a hub, linking together each country's own real time gross settlement system, so problems in one country can affect the centre even if they do not have any real impact on other national systems.

On Monday, the difficulties were fairly widespread, and Target had to announce three half-hour extensions to its normal closing time of 6pm Frankfurt time to ensure everybody's payments got through. On Tuesday, a one-hour extension was needed because of problems in the Portuguese payments system.

ECB officials insisted the delays were merely predictable teething troubles. Private sector bankers said the delays had not prevented them from starting their overnight batch processes on time, and had caused no knock-on difficulties.

"If this is the only thing that happens I think we can still pat ourselves on the back," said Jost Kuiper, senior vice president for treasury and fixed income at ABN Amro in Amsterdam.

Other segments of the European financial system appeared to have coped well with the transition. Cedel and Euroclear, the two securities depositories which clear many international bond and equity transactions, both came through the weekend with flags flying high, releasing converted balances to clients well ahead of schedule.

Global custodians

brokers acknowledged that clients checking in first thing on Monday discovered their accounts showing at zero, because their systems did not yet have live prices to update valuations.

Bankers are still cautious about proclaiming victory before the infrastructure has proved that it can stand up to real volumes. The first euros traded in the spot foreign exchange market only came through for settlement last night, and securities trades from Monday will only start to settle from today onwards.

At the Bank of England, credited by many banks for its work in co-ordinating preparations for the euro conversion in the capital

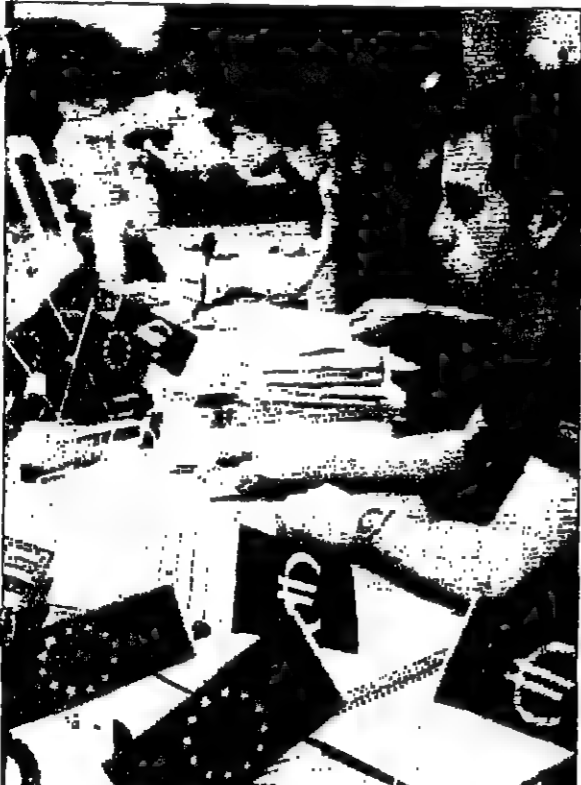
"We had a few glitches where we took a few minutes to think about what to do, but I can't even think of anything I would describe as a problem. Everybody involved did precisely as they were supposed to do"

appeared for the most part to have coped with the conversion process, though some fund managers complained that their custodians were slow in giving details of updated account balances.

Some retail stockbrokers also encountered difficulties, in Germany, some on-line

markets. David Clementi, deputy governor, expressed satisfaction as the conversion process wound up on Sunday.

"Today has been a huge milestone. There are further milestones to come but we judge that it will go smoothly."



A bond trader in London prepares for the euro's arrival

## Banks confront hard choices on handling euros

By George Graham, Banking Editor

The birth of the euro has launched a cutthroat competition in the payments market, not only between clearing banks but also between payments systems.

At the systems level, each country in the European Union is obliged to have a real-time gross settlement system connecting to the European Central Bank's Target system.

Many countries also operate end-of-day net payment systems, and at a transnational level the Euro Banking Association, which cleared Ecu, is running a net system that is expected to be a major contender.

Estimating payment volumes in euros has been difficult, but, on the basis of national currency payments, a Boston Consulting Group study last year estimated traffic in the 11 euro-zone countries at around 322,000 high-value payments a day.

The capacity added in anticipation of the new currency by Germany's EAF, the UK's Chaps, Euro France's TBF and the EBA system - just four of the biggest channels competing for euro transfers - could handle another 744,000 payments a day.

Banks do not yet know which of these systems will end up as the dominant channels, so many of the larger clearers have signed up for half a dozen systems to cover their bets. This is costly, however, not so much in terms of membership fees and running costs as in the added difficulty of managing liquidity. Banks will soon want to narrow their choices.

Each bank has to put up collateral, usually in the form of government securities, in each of the systems in which it is participating to cover its outgoing payments. Any glitches could result in a bank running

short of liquidity in, say, EBA - and having to borrow to cover its needs - despite having surplus euros in its national RTGS system.

While it is easy enough to switch cash around the continent through Target, it can be more complicated to move collateral. Some central banks are still dragging their feet over collateral transfer arrangements; there is a suspicion among some bankers this is a deliberate ploy designed to keep liquidity within their national money market.

There are also far too many banks competing for payments business. The euro sharply reduces the need for large banks to maintain correspondents in different euro-zone countries and also opens the door for corporate clients to slash the number of banks they deal with.

Since the D-Mark accounts for around half of all payments in the euro-zone, Deutsche Bank and possibly Commerzbank of Germany are expected to emerge as market leaders in terms of volumes cleared. But a number of US banks also appear well-placed.

Broadcasts on the Swift interbank message system of Standard Settlement Instructions, in which banks and broker-dealers tell the market where to send any euro payments they are owed, suggest Chase Manhattan so far leads the field, featuring in 27 per cent of SSIs issued up to December 23.

Deutsche follows with a 19 per cent share, and Citibank lies third with 6 per cent - although these figures indicate only numbers of banks issuing SSIs and not volumes of euros.

The top 10 is rounded out by Dresdner, Commerzbank, Societe Generale, Bankers Trust - soon to be taken over by Deutsche - Bank of America, Midland and Barclays. Many who fail to make the top 10 face stark decisions over persevering.

There's only one place to go for your euro solutions. And here they all are.

[www.ibm.com/euro/impacts\\_and\\_opportunities](http://www.ibm.com/euro/impacts_and_opportunities)

[www.ibm.com/euro/and\\_dual\\_pricing](http://www.ibm.com/euro/and_dual_pricing)

[www.ibm.com/euro/not\\_on\\_my\\_keyboard](http://www.ibm.com/euro/not_on_my_keyboard)

[www.ibm.com/euro/and\\_e-business](http://www.ibm.com/euro/and_e-business)

[www.ibm.com/euro/i\\_need\\_more\\_resources](http://www.ibm.com/euro/i_need_more_resources)

[www.ibm.com/euro/my\\_customers\\_want\\_euro\\_invoices](http://www.ibm.com/euro/my_customers_want_euro_invoices)

[www.ibm.com/euro/can\\_IT\\_tools\\_help](http://www.ibm.com/euro/can_IT_tools_help)

[www.ibm.com/euro/is\\_not\\_just\\_another\\_currency](http://www.ibm.com/euro/is_not_just_another_currency)

[www.ibm.com/euro/i\\_need\\_a\\_project\\_plan](http://www.ibm.com/euro/i_need_a_project_plan)

[www.ibm.com/euro/heeellp](http://www.ibm.com/euro/heeellp)

Discover the euro solution you've been searching for at any one of the addresses above. Or try [www.ibm.com/euro](http://www.ibm.com/euro). Either way you'll end up at the IBM euro solutions Web site. And there, whatever your company size and irrespective of how far along the road to full adaptation you are, you'll find everything you need to cope with the challenges and realise the opportunities of the single currency. It's an invaluable store of euro information, services and products designed to help make your organisations euro plans as straightforward and beneficial as possible. Feel free to visit [www.ibm.com/euro](http://www.ibm.com/euro)



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INTERNATIONAL CAPITAL MARKETS

Successful bund auction lifts Europe

BENCHMARK BONDS By Robert Jacob in London and John Labate in New York

A successful German bund auction pushed European markets higher yesterday. Germany sold €7.5bn of 30-year bonds at a yield of 3.71 per cent...

Before the auction yesterday morning, the heavy supply expected this week loomed as a damper on prices. Some €21bn in euro bonds will have been sold by governments this week...

UK gilts ended slightly lower, with the 10-year gilt future falling from 119.25 to 119.15. Trading was notably light, and the market appeared to be holding its breath as it waited for the Bank of England's decision on an interest rate cut on Thursday...

CME sees 'solid' trading in euro Japanese share prices take pounding

By Alexandra Nushbaum in Tokyo

Japanese stocks are being pounded by high Japanese government bond yields, negative corporate growth prospects and an appreciating yen. From its 1998 high of 17,352, the Nikkei 225 index has fallen 23 per cent...

Philippines steals the show

NEW ISSUES By Edward Lane, Capital Markets Editor

The Philippines yesterday stole the show with the launch of a \$1bn offering - its largest ever on the international bond markets. Interest in the two-tranche issue, which will be priced today, to some extent assuaged fears about oversupply in the investment grade dollar sector...

New international bond issues

Table with columns: Issuer, Amount, Coupon, Maturity, and Book-runner. Lists various international bond issues from countries like the Philippines, France, and Germany.

Much of the expected supply has been pre-empted by the provision of Japanese guarantees for yen denominated offerings by Malaysia and Thailand and by better than expected current account surpluses in South Korea and Thailand...

US CORPORATE BONDS

Table with columns: Issuer, Amount, Coupon, Maturity, and Book-runner. Lists various US corporate bond issues.

On Tuesday, volume dropped to 2,100 contracts, with open interest standing at 2,191 by Tuesday's close. Scott Gordon, the CME's chairman, said the exchange had been impressed by the volume with Rick Kilcollin, president, adding that the activity had been stronger than many expected...

INTERNATIONAL BONDS

Table with columns: Issuer, Amount, Coupon, Maturity, and Book-runner. Lists various international bond issues.

High interest rates are most damaging to highly geared sectors such as airlines, construction and real estate. Higher bond yields hurt the airline companies, which, with heavily levered balance sheets and weak cashflow, are interest rate sensitive...

WORLD BOND PRICES

Table showing benchmark government bonds for various countries including Australia, Austria, Belgium, Denmark, France, Germany, Greece, Ireland, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, UK, and US.

FRANCE

Table showing French bond futures and options with columns for price, change, and volume.

GERMANY

Table showing German bond futures and options with columns for price, change, and volume.

ITALY

Table showing Italian bond futures and options with columns for price, change, and volume.

NETALIAN GOVT. BOND (GTY) FUTURES (LFF) 1000000 10000 of 100%

Table showing Netalain government bond futures with columns for price, change, and volume.

EURO

Table showing Euro bond futures and options with columns for price, change, and volume.

UK BONDS

Table showing UK government securities with columns for price, change, and volume.

FT Actuaries Government Securities

Table showing FT Actuaries government securities with columns for price, change, and volume.

UK GILTS PRICES

Table showing UK gilt prices with columns for price, change, and volume.

UK INDICES

Table showing UK indices with columns for price, change, and volume.

FT Fixed Interest Indices

Table showing FT fixed interest indices with columns for price, change, and volume.

Other Fixed Interest

Table showing other fixed interest instruments with columns for price, change, and volume.

10 YEAR BENCHMARK SPREADS

Table showing 10-year benchmark spreads for various countries.

EMERGING MARKET BONDS

Table showing emerging market bonds for countries like Argentina, Brazil, Mexico, and others.

SPAIN

Table showing Spanish bond futures and options with columns for price, change, and volume.

UK

Table showing UK bond futures and options with columns for price, change, and volume.

US

Table showing US Treasury bond futures with columns for price, change, and volume.

JAPAN

Table showing Japanese long-term government bond futures with columns for price, change, and volume.

OTHER

Table showing other international bond futures with columns for price, change, and volume.

Other Fixed Interest

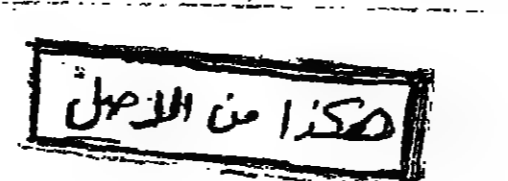
Table showing other fixed interest instruments with columns for price, change, and volume.

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COMMODITIES & AGRICULTURE

Outlook improves for Pakistan wheat

By Farhan Bokhari in Lahore

The outlook for Pakistan's wheat crop has improved with the arrival of the first widespread rains across the Punjab province after an unusually long two-month dry spell.

Winter rains are important for wheat, falling when the water level in dams and reservoirs is low, and farmers depend on rains to irrigate their fields.

Officials with the provincial government in Lahore have reported rainfall across

much of the province, where almost 80 per cent of the wheat crop is grown.

The agriculture ministry in Islamabad has set a production target of 15m tonnes this year for the country, up slightly on last year's production of 13.7m tonnes.

The size of this year's crop has added significance for Pakistan. Faced with economic problems after the west introduced economic sanctions because of its nuclear tests, the country has tried to narrow its international trade deficit. Part of

that effort has gone towards cutting commodity imports, especially wheat, to save precious foreign exchange.

Although exact estimates are still unclear, businessmen and officials say Pakistan may import between 1.5m and 2m tonnes of wheat in the next 12 months to meet domestic demand.

While the rainfall is expected to irrigate wheat fields at a crucial time, some experts say part of the crop may already have been damaged.

"Some damage to the crop, especially in the 'barani' [rain-fed] areas is irreversible," said Amer Muhammad, one of the country's most respected agricultural scientists. "But in canal-irrigated areas, where most of the crop is grown, the rains would mitigate the effects of the drought."

Officials said only 10 per cent of the crop is grown in the "barani" areas, which makes their impact on the national output insignificant.

Mr Muhammad, however, said that although it was still too early to assess the

final national output, even achieving an output similar to last year's "would be very good".

Officials say the crop needs at least 50mm of rain next week, and between 10mm and 30mm in the next few months, to meet needs.

In spite of the latest relief, experts say Pakistan's wheat crop suffers from a range of structural problems, such as delay in sowing, inefficient cultivation methods and poor compliance with recommendations for using fertiliser.

Oil prices firm on big fall in US stocks

MARKETS REPORT

By Robert Corzine, Gillian O'Connor and Paul Solman

Oil prices firmed yesterday on news of a hefty fall in crude stocks in the US in the week to January 1. Brent Blend for February delivery was up 24 cents to \$10.77 a barrel in late trading on London's International Petroleum Exchange.

For months the markets have been seeking evidence that surplus world crude stocks are beginning to fall, especially in the US, the world's biggest oil market.

American Petroleum Institute figures showed stocks were drawn down by more than 14m barrels over the week, although inventory levels remain high.

It was the turn of tin to touch a new five-year low on the London Metal Exchange, as the three-month price dropped below \$5,000 a tonne. Traders said funds, which have hitherto concentrated on selling down metals, finally turned their attention to tin.

Analysts who base their decisions on chart movements argue that the price could fall to \$4,500 a tonne before it finds a new support level. The rise in stocks over the past two days provided investors who concentrate on fundamentals with another reason for gloom.

The price picked up from its \$4,900 low to close at \$5,025. On the bullion market, silver closed almost 5 per cent higher at \$5.15 an ounce, after hitting the \$5.22 target set by technical analysis.

March cocoa futures closed 24 higher at \$91 a tonne on the London International Financial Futures and Options Exchange.

March robusta coffee fell after a bout of selling to end down \$7 at \$1.747 a tonne.

TIN FLAT INDONESIA OUTPUT EXPECTED

PT Timah may smelt foreign ore

By T.J. Tan in Kuala Lumpur

Expectations that Indonesian tin output will be flat this year are prompting PT Timah, south-east Asia's biggest tin miner and smelter, to consider smelting foreign ore.

The state-owned company currently smelts only Indonesian ore.

Timah's production this year is expected to remain little changed from last year's 41,000 tonnes. Output has fallen from the 1997 level of 51,000 tonnes as it concentrates on mining lower grade ore to conserve high-grade sites, a move made possible by the devaluation of the Indonesian currency.

The price of tin has tripled in rupiah terms to Rp39,000 (\$5) a kilogram because of the weak rupiah, enabling Timah's net profits to soar by 350 per cent year-on-year to Rp100bn in January to September 1998.

Almost all Indonesia's tin is exported. A Timah official, who says smelting foreign ore is "a possibility", declined to say from where it might source supplies.

Malaysian experts say Timah might seek supplies from Australia. It owns part of the 13,000 tonne-a-year Kobadin smelter controlled by Australia's Resonant Bell. Kobadin, located in the vital Indonesian mining area of Bangka Island, produces about 10,000 tonnes of tin a year from local ore.

Timah's smelting plant in Bangka is capable of dealing with 50,000 tonnes of metal a year, but produces about 80 per cent of that.

Because of tight supply, any move by Timah to smelt foreign ore would unsettle Malaysia Smelting Corporation and Thailand Smelting and Refining Company (Thaisarco), the

region's other smelter, although Malaysian experts said Timah's lack of experience in smelting on commission and in dealing with "dirty" foreign ore could hinder its efforts.

Malaysia Smelting, with production capacity of 26,000 tonnes of metal a year, gets its supplies mainly from Peru, Australia and Portugal. It also smelts all of Malaysia's output, which is likely to increase slightly to 6,000 tonnes this year.

The company is smelting at close to capacity and relies on its 110-year history to secure contracts.

Supply is tight, partly because Russia and China have not been sending much to the region for smelting. Also, Australian output has been flat at about 10,000 tonnes a year. That means, attempting to increase output from 1,000 tonnes a year, have had problems getting funding from banks.

Thaisarco, located on Thailand's Phuket island, is running at "near to capacity", says an official at Escovy group in Malaysia. Escovy and Amalgamated Metal Corporation of the UK are the new owners of the plant.

The refurbished plant is capable of producing about 15,000 tonnes of metal a year. Its materials come mainly from South America, Portugal and Australia.

The number of smelters has fallen to three after Escovy shut its 100-year-old plant on the Malaysian island of Penang in early 1998 partly on environmental grounds and partly because of lack of labour.

Ray of hope for Kenya in tea

In a country where good news is scarce the year's first tea sales in Mombasa have seen encouraging results, says Mark Turner

If the year's first tea auction at Mombasa is anything to go by, Kenya's tea sector may justifiably feel rather pleased with itself.

Strong demand from Egypt, Pakistan and the UK pushed prices up by 5 to 20 US cents a kilo from December - an unexpected boon following a year when production exceeded all expectations, although slightly below similar prices at the beginning of last year.

Heavy rains due to the El Niño weather pattern helped Kenya's estates and smallholders reap 250m or more tonnes of processed tea in 1998, well above predictions of 200m to 250m tonnes.

Tea brokers say the relatively small price differential between best and lower medium grades tea last week - with a concession of only about 30 cents for Pekoe Fanning 1 grade tea indicating less discrimination among buyers - points to a year of strong demand ahead.

If the sharp decline in Kenyan T-11 rates precipitates a decline in the shilling, as some analysts expect, producers can expect even higher profits.

"1999 is going to be an excellent year for Kenya and East African tea," said Norman Wilson from Africa Tea Brokers in Mombasa.

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"1999 is going to be an excellent year for Kenya and East African tea," said Norman Wilson from Africa Tea Brokers in Mombasa.



Rich pickings: Kenya is now the world's premier tea exporter

Armed with a sophisticated appreciation of world markets, and aided by a decline of prices that less competition in Mombasa could precipitate, unscrupulous dealers might pay below the real value, and farmers could be short-changed.

The changes have also prompted uncertainty about KTDA plans to build another eight factories, to help create processing capacity of 300m tonnes a year by early next decade.

Financials such as the CDC, facing an unclear future, are waiting before committing themselves.

Mulunge Mwikumba, a Kenyan agricultural economist who specialises in tea, adds that Kenya faces another big challenge. The increase in

production has coincided with market stagnation or decline in Kenya's three main purchasers, the UK, Egypt and Pakistan, which account for more than 50 per cent of exports.

As countries such as Uganda and South Africa start to push for the same markets, Kenya will need to diversify its export base.

"Since the 1980s, Kenya has focused on increasing production," said Mr Mulunge, a task at which the KTDA was successful. "But we should now focus our attention on marketing, to Sudan, Somalia, the Middle East and even Russia, which will be looking for new suppliers as India's internal consumption grows."

COMMODITIES PRICES

BASE METALS

Table with columns for metal types (Copper, Zinc, Lead, Tin, Aluminium) and price changes. Includes sub-sections for London Metal Exchange and Aluminium Alloy.

Precious Metals continued

Table showing prices for Gold, Silver, Platinum, and Palladium in various units.

GRAINS AND OIL SEEDS

Table listing prices for Wheat, Corn, Soybeans, and other grains and oil seeds.

SOFTS

Table showing prices for Cotton, Coffee, and other soft commodities.

MEAT AND LIVESTOCK

Table listing prices for various types of meat and livestock.

LONDON TRADED OPTIONS

Table showing option prices for various commodities.

CROSSWORD

Crossword puzzle grid with clues and a solution key.

ENERGY

Table showing prices for Crude Oil, Natural Gas, and other energy commodities.

PULP AND PAPER

Table listing prices for various types of pulp and paper.

INDICES

Table showing various stock and commodity indices.

WORLD MARKET

Table showing international market prices and exchange rates.

MARKET COMMENTARY

Market commentary text discussing commodity price trends and market conditions.

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PRECIOUS METALS

Table showing prices for Gold, Silver, and other precious metals.

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FT Cypriot Unit Trust Prices are available over the telephone. Call the FT Cypriot Help Desk on (444 177) 822 4222 for more details.

OFFSHORE AND OVERSEAS

BERMUDA (FSA RECOGNISED)

Table listing Bermuda funds including Bermuda Growth Fund, Bermuda Income Fund, Bermuda Equity Fund, etc.

BERMUDA (REGULATED)\*\*

Table listing regulated Bermuda funds including Bermuda Growth Fund, Bermuda Income Fund, Bermuda Equity Fund, etc.

CAYMAN ISLANDS (REGULATED)\*\*

Table listing Cayman Islands funds including Cayman Growth Fund, Cayman Income Fund, Cayman Equity Fund, etc.

Table listing various international funds including Global Growth Fund, Global Income Fund, Global Equity Fund, etc.

Table listing various international funds including Global Growth Fund, Global Income Fund, Global Equity Fund, etc.

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Advertisement for JAL (Japan Airlines) featuring the text: 'Get on a JAL flight to Japan, and end up somewhere in Europe. Japan Airlines are offering double bonus miles on flights from Europe to Japan, between 10th January and 30th April, 1999. This means that new JAL Mileage Bank members need only make one JAL Executive Class Season return trip, to earn enough mileage for a return ticket in Europe with Air France or British Midland. For more information or to join the JAL Mileage Bank visit our web site at www.jal-europe.com'

wheat Oil prices firm on big fall in US stock

COTTEN PAD

CROSSWORD





FT MANAGED FUNDS SERVICE

Offshore Insurances and Other Funds

FT Offshore Unit Trust Prices are available over the telephone. Call the FT Offshore Help Desk on (444 177) 873 4278 for more details.

Table of fund data including columns for fund name, price, and other metrics. Includes sub-sections like 'Other Offshore Funds'.

Table of fund data for various investment funds.

WHY YOU SHOULD BE MORE CONCERNED ABOUT THE DATE ON YOUR PC THAN THE ONE ON YOUR CHAMPAGNE BOTTLE. Includes a champagne bottle image.

Table of fund data for various investment funds.

Table of fund data for various investment funds.

Table of fund data for various investment funds.

MANAGED FUNDS NOTES: Detailed notes regarding fund management, performance, and other relevant information.

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

Table listing companies in the Alcoholic Beverages sector with columns for company name, share price, and change.

BANKS, RETAIL

Table listing companies in the Banks and Retail sector with columns for company name, share price, and change.

BREWERS, PUBS & REST

Table listing companies in the Brewers, Pubs & Rest sector with columns for company name, share price, and change.

BUILDING MATS. & MERCHANTS

Table listing companies in the Building Materials & Merchants sector with columns for company name, share price, and change.

CHEMICALS

Table listing companies in the Chemicals sector with columns for company name, share price, and change.

CONSTRUCTION

Table listing companies in the Construction sector with columns for company name, share price, and change.

CONSTRUCTION - Continued

Continuation of the Construction sector table.

DISTRIBUTORS

Table listing companies in the Distributors sector with columns for company name, share price, and change.

ENGINEERING - Continued

Continuation of the Engineering sector table.

ENGINEERING - Continued

Continuation of the Engineering sector table.

ELECTRICITY

Table listing companies in the Electricity sector with columns for company name, share price, and change.

ELECTRONIC & ELECTRICAL EQPT

Table listing companies in the Electronic & Electrical Equipment sector with columns for company name, share price, and change.

ENGINEERING

Table listing companies in the Engineering sector with columns for company name, share price, and change.

ENGINEERING - Continued

Continuation of the Engineering sector table.

ENGINEERING - Continued

Continuation of the Engineering sector table.

ENGINEERING - Continued

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ENGINEERING - Continued

Continuation of the Engineering sector table.

ENGINEERING - Continued

Continuation of the Engineering sector table.

ENGINEERING - Continued

Continuation of the Engineering sector table.

FOOD PRODUCERS - Continued

Continuation of the Food Producers sector table.

GAS DISTRIBUTION

Table listing companies in the Gas Distribution sector with columns for company name, share price, and change.

HEALTH CARE

Table listing companies in the Health Care sector with columns for company name, share price, and change.

HEALTH CARE - Continued

Continuation of the Health Care sector table.

HOUSEHOLD GOODS & TEXT

Table listing companies in the Household Goods & Text sector with columns for company name, share price, and change.

EXTRACTIVE INDUSTRIES

Table listing companies in the Extractive Industries sector with columns for company name, share price, and change.

INSURANCE

Table listing companies in the Insurance sector with columns for company name, share price, and change.

INSURANCE - Continued

Continuation of the Insurance sector table.

INSURANCE - Continued

Continuation of the Insurance sector table.

INSURANCE - Continued

Continuation of the Insurance sector table.

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INSURANCE - Continued

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INSURANCE - Continued

Continuation of the Insurance sector table.

INSURANCE - Continued

Continuation of the Insurance sector table.

INVESTMENT TRUSTS - Continued

Continuation of the Investment Trusts sector table.

INVESTMENT TRUSTS - Continued

Continuation of the Investment Trusts sector table.

INVESTMENT TRUSTS - Continued

Continuation of the Investment Trusts sector table.

INVESTMENT TRUSTS - Continued

Continuation of the Investment Trusts sector table.

INVESTMENT TRUSTS - Continued

Continuation of the Investment Trusts sector table.

INVESTMENT TRUSTS - Continued

Continuation of the Investment Trusts sector table.

INVESTMENT TRUSTS - Continued

Continuation of the Investment Trusts sector table.

Financial Times Surveys

# Northern Ireland

Thursday April 1

For further information please contact:

Charles Blandford  
Tel: +353 1 676 1184 Fax: +353 1 676 2125  
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email: tracey.endacott@FT.com

FINANCIAL TIMES  
No FT, no comment.

مكتبات الأمل

LONDON SHARE SERVICE

OTHER INVESTMENT TRUSTS

Table listing various investment trusts with columns for name, price, and change.

INVESTMENT COMPANIES

Table listing investment companies with columns for name, price, and change.

LEISURE & HOTELS

Table listing leisure and hotel companies with columns for name, price, and change.

LIFE ASSURANCE

Table listing life assurance companies with columns for name, price, and change.

MEDIA

Table listing media companies with columns for name, price, and change.

MEDIA - Continued

Table listing media companies (continued).

OR EXPLORATION & PRODUCTION

Table listing oil and gas exploration and production companies.

OR INTEGRATED

Table listing integrated oil and gas companies.

OTHER FINANCIAL

Table listing other financial companies.

PAPER, PACKAGING & PRINTING

Table listing paper, packaging, and printing companies.

PHARMACEUTICALS

Table listing pharmaceutical companies.

PROPERTY - Continued

Table listing property companies (continued).

RETAILERS, GENERAL - Continued

Table listing general retailers (continued).

SUPPORT SERVICES - Continued

Table listing support services companies (continued).

RETAILERS, FOOD

Table listing food retailers.

RETAILERS, GENERAL

Table listing general retailers.

RETAILERS, GENERAL - Continued

Table listing general retailers (continued).

SUPPORT SERVICES

Table listing support services companies.

TELECOMMUNICATIONS

Table listing telecommunications companies.

TORRACO

Table listing tobacco companies.

TRANSPORT

Table listing transport companies.

TRANSPORT - Continued

Table listing transport companies (continued).

WATER

Table listing water companies.

AMERICANS

Table listing American companies.

CANADIANS

Table listing Canadian companies.

SOUTH AFRICANS

Table listing South African companies.

TRADED INDEX SECURITIES

Table listing traded index securities.

AIM - Continued

Table listing AIM companies (continued).

AIM

Table listing AIM companies.

AIM

Table listing AIM companies.

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Table listing AIM companies.

REUTERS@SCHWAB advertisement with logo and contact information.

GUIDE TO LONDON SHARE SERVICE

Guide to London Share Service containing terms and conditions, pricing, and contact information.

LONDON STOCK EXCHANGE

Bid fever drives Footsie to brink of new high

MARKET REPORT

by Steve Thompson, UK Stock Market Editor

The current takeover excitement in the telecoms arena, triggered by Vodafone's intervention in the bid...

strategist at Paribas and one of the market's most bullish observers, said: "There is more upside to come; the global economy is not moving into recession..."

At the height of the market's buying spree the FTSE 100, London's benchmark index, looked like challenging its all-time closing high of 6,178.0...

point short of registering a 200-point gain. At the close, the Footsie had chalked up a 190.6 advance to 6,148.8...

Dealers said the momentum behind the surge came from Wall Street overnight, where the Dow Jones Industrial Average raced up to within around 70 points of its record high in response...

to the news about AirTouch. London's strength intensified during the afternoon as the Dow was catapulted to a record intra-day high...

Wall Street's momentum carried through into Asian markets early yesterday, driving Hong Kong and Tokyo sharply higher...

Confirmation of recent rumours of a possible merger or alliance involving LucasVarity added to the fueling factor running right through the stock market.

Sentiment was additionally lifted by continuing optimism over the direction of domestic interest rates.

Although there are doubts over whether the Bank of England's monetary policy committee will sanction another reduction in UK rates at noon today on completion of its regular two-day meeting...

More evidence of the market's

advance came from the performance of the second and third-line indices. The FTSE 250 jumped 74.2 or 1.5 per cent to 4,944.4. That index remains, however, a long way from its previous record close of 5,966.6...

A big bought deal in Telewest, the cable company, executed by Dresner Kleinwort Benson, boosted the market takeover...

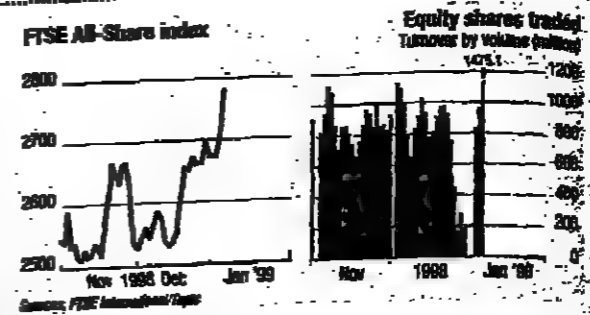


Table with columns: Index and ratios, Best performing sectors, Worst performing sectors.

Oil price forecasts revised

COMPANIES REPORT

by Peter John, Joel Kibazo and Martin Biles

Hopes for the beleaguered oil industry came under attack as analysts prepared to ratchet down their forecasts for underlying oil prices.

Commerzbank, the first broker to come out with a revised 1999 forecast, cut its current year estimate by \$3 to \$11 a barrel.

Those reduced forecasts will hit the exploration and production companies particularly hard.

Commerzbank analyst Jeremy Eiden reiterated his "sell" stance on the subsector and highlighted Lamo as being vulnerable among the UK explorers.

"In an 81 world the E&P's don't have a viable business and with these kind of oil prices Lamo is close to being extinguished," he said.

Commerzbank has downgraded BP and Shell Transport from "hold" to "sell". BP, which is still benefiting

from the re-weighting prompted by the Amoco merger, rose 13 to 929p, but Shell fell 7 to 356p.

Consolidation hopes continued to boost telecom issues helping to drive the market sharply ahead.

Orange rose to a new peak, the shares closing 80 1/2 or 10.53 per cent up at 938p, while Colt Telecom advanced 5 1/2 to £11.24.

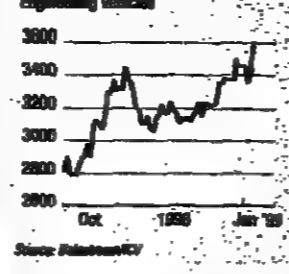
Turnover in cable television and telecoms group Telewest Communications

soared to 261m, making it by far the most actively traded stock of the day, after Dresner Kleinwort Benson executed a bought deal and placing in the stock.

Last month there were two large agency crosses in Telewest, which totalled 93m shares or around 4.3 per cent of the company's issued capital.

Arbitrage trading was said to be behind the decline in

Best and worst performing FTSE equities



Vodafone Group, which this week joined the race for US group AirTouch by proposing a \$55bn merger. The shares declined 2 1/4 to £10.89 in a busy session that brought turnover of 43m.

AirTouch had already entered merger talks with US group Bell Atlantic.

British Aerospace badly underperformed the market as it fell a penny to 519p after a report in the French press that Daimler-Benz Aerospace chairman Jürgen Schreppel had said merger of the two companies would be delayed for several months as some issues remained outstanding.

There was gloomy news from British Airways on prospects for all-important premium traffic. It said high-value traffic fell 3.6 per cent, although its non-premium traffic grew 12.9 per cent.

It also said forward bookings pointed to "a continuing softness, particularly in premium traffic". This was put

Glaxo rises

Pharmaceuticals stocks attracted more attention as one US broker raised its price target for Glaxo Wellcome. The stock is already regarded as the most expensive pharmaceutical company in the world by one analyst.

However, it was far from good news for all sector constituents, and electrical goods retailer Dixons fell 4 1/4 to 797p, the worst performer in the FTSE 100, after a couple of brokers urged clients to reduce holdings.

Dresner Kleinwort Benson believes the recent excitement over the group's new internet connection service has been overdone.

Deutsche Morgan Grenfell was also said to be negative on both Dixons, which reports interim figures next week, and Kingfisher up 30% to 684p.

Small oil services group Abbot, which on Tuesday said it was in talks with Norwegian oil services company ProSafe, lost all but a penny of the advance it achieved after the announcement.

Traders suggested the terms of the deal presented an arbitrage opportunity that involved selling Abbot, which lost 1 1/2 to 180p, and buying ProSafe.

The Asian factor helped Standard Chartered hit the top of the Footsie with a rise of 94 to 784p and led to HSBC lifting 12 1/2 to £17.19.

Elsewhere, Abbey

National gained 90 to £13.58

Bank of Scotland 45 to 787p and Lloyds TSB 34 1/2 to 510p.

Selected insurers were also helped by an upgrade from Lehman Brothers. The broker raised its recommendations on Royal & Sun Alliance, which rose 3 1/4 to 548p, and on Sun Life & Provincial, which added 27 to 539p.

An upbeat trading statement from fashion retailer Next helped the shares move sharply ahead on a strong day in the market.

The company said total sales in the 21 weeks to Christmas were 10 per cent higher than the year before, with a 12.5 per cent increase in sales from its stores partly offset by a 2.5 per cent decline in its Next Directory catalogue service.

However, it was far from good news for all sector constituents, and electrical goods retailer Dixons fell 4 1/4 to 797p, the worst performer in the FTSE 100, after a couple of brokers urged clients to reduce holdings.

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FUTURES AND OPTIONS

FTSE 100 INDEX FUTURES (LFFES) £10 per full index point

Table with columns: Open, Settle, Change, High, Low, Bid, Ask, Last bid, Offer.

FTSE 250 INDEX FUTURES (LFFES) £10 per full index point

Table with columns: Open, Settle, Change, High, Low, Bid, Ask, Last bid, Offer.

FTSE 100 INDEX OPTIONS (LFFES) £10 per full index point

Table with columns: Call, Put, Open, Settle, Change, High, Low, Bid, Ask, Last bid, Offer.

FTSE 250 INDEX OPTIONS (LFFES) £10 per full index point

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LONDON RECENT ISSUES: EQUITIES

Issue, Amt, Price, % chg, High, Low, Bid, Ask, Last bid, Offer

Table listing London recent issues: Equities.

Issue, Amt, Price, % chg, High, Low, Bid, Ask, Last bid, Offer

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Table listing London recent issues: Equities.

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FTSE Actuaries Share Indices - The UK Series. Includes tables for FTSE Actuaries Share Indices, FTSE Actuaries Industry Sectors, and TRADING VOLUME. Includes FTSE logo and 'INTERNATIONAL' text.

Handwritten Arabic text: 'السيد محمد الراجحي'

WORLD STOCK MARKETS

Highs & Lows shown on a 52 week basis

EUROPE (EMU) Prices in €

Table listing stock prices for various European countries including Austria, Belgium, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, and Switzerland.

EUROPE (NON-EMU) Prices in £

Table listing stock prices for non-EMU European countries including Denmark, Finland, and Sweden.

EUROPE (NON-EMU) Prices in \$

Table listing stock prices for non-EMU European countries including Denmark, Finland, and Sweden in US dollars.

EUROPE (NON-EMU) Prices in ¥

Table listing stock prices for non-EMU European countries including Denmark, Finland, and Sweden in Japanese Yen.

EUROPE (NON-EMU) Prices in HK\$

Table listing stock prices for non-EMU European countries including Denmark, Finland, and Sweden in Hong Kong Dollars.

EUROPE (NON-EMU) Prices in S\$

Table listing stock prices for non-EMU European countries including Denmark, Finland, and Sweden in Singapore Dollars.

EUROPE (NON-EMU) Prices in A\$

Table listing stock prices for non-EMU European countries including Denmark, Finland, and Sweden in Australian Dollars.

EUROPE (NON-EMU) Prices in NZ\$

Table listing stock prices for non-EMU European countries including Denmark, Finland, and Sweden in New Zealand Dollars.

EUROPE (NON-EMU) Prices in R\$

Table listing stock prices for non-EMU European countries including Denmark, Finland, and Sweden in Brazilian Reals.

EUROPE (NON-EMU) Prices in INR

Table listing stock prices for non-EMU European countries including Denmark, Finland, and Sweden in Indian Rupees.

Table listing stock prices for various Asian countries including Hong Kong, Japan, Korea, Malaysia, Singapore, Taiwan, Thailand, and the Philippines.

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Rockwell advertisement featuring an image of a jet engine and the text: '99% of the world's airlines fly with Rockwell Collins avionics. http://www.rockwell.com'

FT/S&P ACTUARIES WORLD INDICES

Table showing FT/S&P Actuaries World Indices for various countries and regions, including Australia, Belgium, Canada, France, Germany, Hong Kong, India, Japan, Korea, Malaysia, Singapore, South Africa, Taiwan, Thailand, UK, and USA.

Emerging markets:

Table showing Emerging Markets Indices for various countries including Argentina, Brazil, Chile, Colombia, Costa Rica, Cuba, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Puerto Rico, Uruguay, and Venezuela.

IFC investable indices

Table showing IFC Investable Indices for various countries including Argentina, Brazil, Chile, Colombia, Costa Rica, Cuba, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Puerto Rico, Uruguay, and Venezuela.

AFRICA

Table showing Africa Indices for various countries including Algeria, Angola, Botswana, Burkina Faso, Burundi, Cameroon, Cape Verde, Cote d'Ivoire, Egypt, Equatorial Guinea, Ethiopia, Gabon, Gambia, Ghana, Guinea, Guinea-Bissau, Kenya, Lesotho, Liberia, Madagascar, Malawi, Mali, Mauritania, Mauritius, Morocco, Mozambique, Namibia, Nigeria, Niger, Rwanda, Senegal, Sierra Leone, South Africa, South Africa (JSE), Swaziland, Tanzania, Togo, Tunisia, Uganda, Zambia, and Zimbabwe.

Small print text at the bottom of the page providing details about the data sources, including FTSE International Limited, Standard & Poor's, and other financial institutions.





GLOBAL EQUITY MARKETS

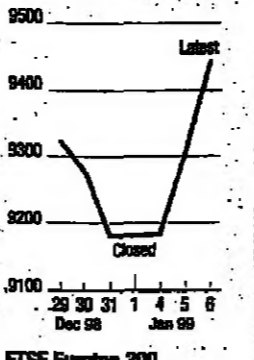
US INDICES

Table of US indices including Dow Jones, S&P 500, and NASDAQ with columns for date, high, low, and change.

US DATA

Table of US data including market activity, NYSE, and NASDAQ trading activity.

Dow Jones



JAPAN

Table of Japanese market data including Nikkei 225 and TOPIX indices.

FRANCE

Table of French market data including CAC 40 index.

GERMANY

Table of German market data including DAX index.

UK

Table of UK market data including FTSE 100 index.

INDEX FUTURES

Table of index futures for S&P 500, Dow Jones, and NASDAQ.

WORLD MARKETS AT A GLANCE

Large table providing a global overview of equity markets across various countries including Argentina, Australia, Brazil, Canada, France, Germany, Hong Kong, India, Japan, Korea, Malaysia, Mexico, New Zealand, Norway, Pakistan, Philippines, Singapore, South Africa, South Korea, Spain, Sweden, Switzerland, Taiwan, Thailand, UK, USA, and Venezuela.

THE NASDAQ-AMEX MARKET GROUP

Table of NASDAQ-AMEX market group data including various stock listings with columns for stock name, price, and change.

THE NASDAQ-AMEX MARKET GROUP

Table of NASDAQ-AMEX market group data including various stock listings with columns for stock name, price, and change.

AMEX

Table of AMEX market data including various stock listings.

EASDAQ

Table of EASDAQ market data including various stock listings.



# STOCK MARKETS

## January rally takes bourses towards highs

### WORLD OVERVIEW

The new year rally in world stock markets roared ahead again yesterday, with the US stock market leaping into record territory in early trading and European markets starting to approach their all-time highs, writes Philip Coggan.

The Dow Jones Industrial Average jumped 150 points in morning trading to pass the 9,400 level for the first time, while Frankfurt and

### EUROPE

Paris gained 3.4 per cent and 2.2 per cent respectively. The latter finished within 100 points of its closing record.

Asia also joined in, with Hong Kong up 3.5 per cent, Singapore 5.7 per cent and Thailand 6.4 per cent.

January rallies are traditional in equity markets and this time round investors were given a burst of encouragement by a wave of takeover talk in US and European markets.

Rumours of deals in the

### AMERICAS

US shares surged in active morning trade, sending the Dow Jones Industrial Average to record levels by midday, writes John Labate.

With the earnings reporting season two weeks away, investors bid up high-tech and blue-chip shares, prompting the broadest rally of the week, while small-company shares trailed the rest of the market, although they were closing the gap.

The Dow Jones Industrial Average was 151.39 higher by early afternoon, a gain of 1.6 per cent, at 9,462.58. The Standard & Poor's 500 index rose 20.83 to 1,265.31. The strongest run was in the high-tech sector, as merger negotiations involving AT&T and analyst upgrades for semiconductor shares, helped to send the Nasdaq composite 58.33 or 2.6 per cent higher at 2,309.55.

A series of raised ratings by analysts at BT Alex Brown for semiconductor equipment makers helped spark yesterday's bullish streak. Novellus Systems rose 57 or more than 11 per cent to 855.4 after the stock was raised to "strong buy" from "market perform".

Other computer-related sectors were higher as well, with Cisco Systems, the networking leader, up 3.4% at \$101.4. But shares of Apple Computer slid 3.1% to \$41.0 one day after the company announced new computer lines and said it would have a profitable quarter. The company was downgraded by CIBC Oppenheimer to "underperform" from "hold".

Retail stocks were strong, including, in the specialty

## Active trade sends Dow to record levels

### EUROPE

Briefly breaking above 4,300 for the first time since July, PARIS ended an active session for the CAC-40 index with a gain of 94.04 or 2.2 per cent at 4,295.43.

Banks blazed away for the third day running as talk of sector consolidation hardened. Société Générale rose €12 to €169 and Paribas €2.70 to €86.95. BNP gained €6.50 or 8.7 per cent to €81.45, although in its case trading volumes were far from heavy.

News that it had lifted its stake in Gucci to 5 per cent sparked a wave of talk that LVMH was set to mount a full-scale takeover for the luxury goods label. LVMH jumped to €205.70 in early trading, but eventually closed up €13 at €200.

Listed in Amsterdam, the Italian-based Gucci shot up

## Paris shows taste for LVMH

### ASIA PACIFIC

Mitsubishi closed at ¥1,102. up ¥22.

The yen held firm at ¥112 to the dollar, but export-oriented stocks continued Tuesday's fall. Sony lost ¥30 to ¥7,740 on comments by Masayoshi Morimoto, senior vice president, that if the yen stayed below ¥115 to the dollar, "it's going to be a severe year." Bridgestone fell ¥70 to ¥3,223 and Fuji Film lost ¥130 to ¥3,850.

Speculation over alliances among carmakers pushed up the shares of Nissan, which rose ¥14 to ¥348, and Honda, which climbed ¥120 to ¥3,530.

In Osaka, the OSE index rose 185 to 14,374.

SINGAPORE soared 5.7 per cent to a nine-month high on fund-buying by managers reallocating portfolios at the start of the year.

The Straits Times index rose 78.73 to 1,494.97 in heavy volume of 526m shares as some investors took their cue from Wall Street's overnight rise.

Property and bank stocks led the rally, with rises of 8.8 per cent and 8.2 per cent respectively, on expectations that local banks would cut prime lending rates to 4.5

### AFRICA

Financials rose 7.4 per cent to 9,078.9 as softening money markets hardened rate cut hopes. Stanbic rose 8.3 per cent to R19.50 in 2.5m shares traded. Industrials added 4.5 per cent to 6,561.2 and golds improved 3.6 per cent to 910.7.

### OCEANIA

Local shares of DBS and OCBC ended 50 cents higher at S\$8.36 and S\$7.10 respectively.

Property heavyweight City Development rose 80 cents to S\$7.40 on expectations that the government might relax anti-speculation measures to boost the sector.

JAKARTA surged for a second day, ending 4.5 per cent higher as investors bought blue chips, inspired by regional gains and a positive response to Indonesia's budget.

The composite index closed up 18.38 at 427.08.

Telkom, which accounts for 14 per cent of total market capitalisation, and cigarette group HM Sampoerna were the targets of heavy foreign buying.

Telkom rose Rp350 to Rp3,300, helped by talk of a possible domestic-call tariff rise this month and support from Wall Street gains overnight. Sampoerna rose Rp825 or 15 per cent to Rp5,325.

Rises of more than 3 per cent on the day were also recorded in HONG KONG, KUALA LUMPUR and MANILA.

### EMERGING MARKET FOCUS

## Sickly Russia's bitter medicine

Long before freezing temperatures gripped the Russian capital this winter, the country's youthful stock market had been suffering from the most severe bout of ill-health since its formation in 1993.

From being the top performer around the world in 1997, it plummeted to an ignominious last position in 1998, driving away investors with an urgency that is unlikely to be reversed in the next few months.

The financial crisis last August - when the Russian government simultaneously devalued the ruble and defaulted on its debt - did little more than deliver a final bruising blow to a near-inanimate corpse.

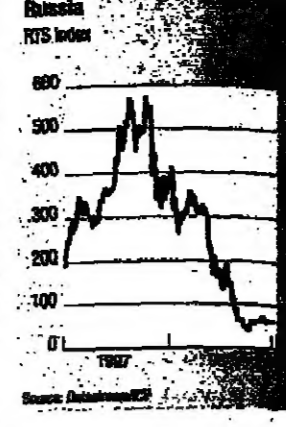
"There was a combination of global and Russian factors at work," said Margot Jacobs, a senior analyst with United Financial Group in Moscow. She highlighted the shock of the Asian market crash in the final quarter of 1997, which led to a sharp jump in inflation and a decline of 5 per cent in gross domestic product during the year.

If investors have turned their backs on all emerging markets, they have stronger reasons for avoiding Russia. And the collapse of the domestic banking system has dried up the principle alternative forms of financing available to the country's companies.

Peter Boone at Brunswick Warburg in Moscow suggests two scenarios for 1999. If the government muddles through with its budget, he argues, the stock market may rally in the build-up to a new package of aid brokered by the International Monetary Fund. If not, the market is likely to stagnate.

So far, only the bolder individuals and hedge funds have come back since August into a market characterised by low volumes and high volatility.

Andrew Jack



## São Paulo gains amid hopes for fiscal reform

SAO PAULO continued to gain ground, boosted by the early record run on Wall Street and the improving political climate at home where hopes of fiscal reform remained high.

Blue chips led the upturn. Banespa rose 5 per cent to R\$33 after a central bank director said the government would attempt to fully privatise the bank by the end of April.

At mid-session, the Bovespa index was up 136 at 7,245, a gain of 1.9 per cent.

## Firm rand boosts all share

SAO PAULO continued to gain ground, boosted by the early record run on Wall Street and the improving political climate at home where hopes of fiscal reform remained high.

## Foreign demand lifts Bangkok

ASIA PACIFIC Active foreign buying sent BANGKOK sharply higher for a third day and the composite index finished 24.05 or 6.4 per cent ahead at 402.56 - an eight-month high.

Analysts noted local and foreign demand for bank, finance, telecoms and property stocks.

The increased overseas demand was attributed to a general shift by global investors into euro-denominated assets from dollar assets. At the same time, investors were using the opportunity to increase their weightings in Asia.

Recent announcements by Thai banks that they would seek government assistance to raise their non-equity tier-2 capital also boosted sentiment.

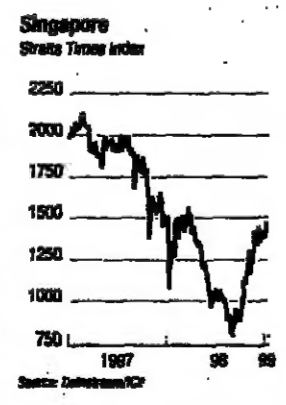
TOKYO advanced slightly, posting its first gain of the year as the yen and the bond market stabilised, writes Alexandra Nishbaum.

The Nikkei 225 posted a 1.8 per cent gain, climbing 235.72 to 13,468.49 after trading between 13,216 and 13,475. The more representative weighted Nikkei 300 rose 1.1 per cent or 2.24 to

MEXICO CITY reversed initial gains as talk of a tight budget and tax reforms sparked widespread selling. "It looks as if the budget is going to be broadly negative for company profits," said one broker.

Leading retailer Cifra, part of the US Wal-Mart group, fell 30 centavos to 10.50 pesos, while beverage group Femsa lost 90 centavos at 24.75 pesos.

At mid-session, the IPC index was off 31.51 at 3,728.26.



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